BERKSHIRE HATHAWAY INC.

1982

ANNUAL REPORT TO THE STOCKHOLDERS

Berkshire Hathaway Inc.

1982 ANNUAL REPORT

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A compilation of the letters from the principal executives of Berkshire Hathaway Inc. and Blue Chip Stamps taken from the Annual Reports for the years from 1977 to 1981 is available upon request. Direct your request to the Company at 1440 Kiewit Plaza, Omaha, Nebraska 68131.

Berkshire Hathaway Inc.

March 3, 1983

To the Stockholders of Berkshire Hathaway Inc.:

Operating earnings of $31.5 million in 1982 amounted to only 9.8% of beginning equity capital (valuing securities at cost), down from 15.2% in 1981 and far below our recent high of 19.4% in 1978. This decline largely resulted from:

(1) a significant deterioration in insurance underwriting results;

(2) a considerable expansion of equity capital without a corresponding growth in the businesses we operate directly; and

(3) a continually-enlarging commitment of our resources to investment in partially-owned, non-operated businesses; accounting rules dictate that a major part of our pro-rata share of earnings from such businesses must be excluded from Berkshire's reported earnings.

It was only a few years ago that we told you that the operating earnings/equity capital percentage, with proper allowance for a few other variables, was the most important yardstick of single-year managerial performance. While we still believe this to be the case with the vast majority of companies, we believe its utility in our own case has greatly diminished. You should be suspicious of such an assertion. Yardsticks seldom are discarded while yielding favorable readings. But when results deteriorate, most managers favor disposition of the yardstick rather than disposition of the manager.

To managers faced with such deterioration, a more flexible measurement system often suggests itself: just shoot the arrow of business performance into a blank canvas and then carefully draw the bullseye around the implanted arrow. We generally believe in pre-set, long-lived and small bullseyes. However, because of the importance of item (3) above, further explained in the following section, we believe our abandonment of the operating earnings/equity capital bullseye to be warranted.

Non-Reported Ownership Earnings

The appended financial statements reflect "accounting" earnings that generally include our proportionate share of earnings from any underlying business in which our ownership is at least 20%. Below the 20% ownership figure, however, only our share of dividends paid by the underlying business units is included in our accounting numbers; undistributed earnings of such less-than-20%-owned businesses are totally ignored.

There are a few exceptions to this rule; e.g., we own about 35% of GEICO Corporation but, because we have assigned our voting rights, the company is treated for accounting purposes as a less-than-20% holding. Thus, dividends received from GEICO in 1982 of $3.5 million after tax are the only item included in our "accounting" earnings. An additional $23 million that represents our share of GEICO's undistributed operating earnings for 1982 is totally excluded from our reported operating earnings. If GEICO had earned less money in 1982 but had paid an additional $1 million in dividends, our reported earnings would have been larger despite the poorer business results. Conversely, if GEICO had earned an additional $100 million — and retained it all — our reported earnings would have been unchanged. Clearly "accounting" earnings can seriously misrepresent economic reality.

We prefer a concept of "economic" earnings that includes all undistributed earnings, regardless of ownership percentage. In our view, the value to all owners of the retained earnings of a business enterprise is determined by the effectiveness with which those earnings are used — and not by the size of one's ownership percentage. If you have owned .01 of 1% of Berkshire during the past decade, you have benefited economically in full measure from your share of our retained earnings, no matter what your accounting system. Proportionately, you have done just as well as if you had owned the magic 20%. But if you have owned 100% of a great many capital-intensive businesses during the decade, retained earnings that were credited fully and with painstaking precision to you under standard accounting methods have resulted in minor or zero economic value. This is not a criticism of accounting procedures. We would not like to have the job of designing a better system. It's simply to say that managers and investors alike must understand that accounting numbers are the beginning, not the end, of business valuation.

In most corporations, less-than-20% ownership positions are unimportant (perhaps, in part, because they prevent maximization of cherished reported earnings) and the distinction between accounting and economic results we have just discussed matters little. But in our own case, such positions are of very large and growing importance. Their magnitude, we believe, is what makes our reported operating earnings figure of limited significance.

In our 1981 annual report we predicted that our share of undistributed earnings from four of our major non-controlled holdings would aggregate over $35 million in 1982. With no change in our holdings of three of these companies — GEICO, General Foods and The Washington Post — and a considerable increase in our ownership of the fourth, R. J. Reynolds Industries, our share of undistributed 1982 operating earnings of this group came to well over $40 million. This number — not reflected at all in our earnings — is greater than our total reported earnings, which include only the $14 million in dividends received from these companies. And, of course, we have a number of smaller ownership interests that, in aggregate, had substantial additional undistributed earnings.

We attach real significance to the general magnitude of these numbers, but we don't believe they should be carried to ten decimal places. Realization by Berkshire of such retained earnings through improved market valuations is subject to very substantial, but indeterminate, taxation. And while retained earnings over the years, and in the aggregate, have translated into at least equal market value for shareholders, the translation has been both extraordinarily uneven among companies and irregular and unpredictable in timing.

However, this very unevenness and irregularity offers advantages to the value-oriented purchaser of fractional portions of businesses. This investor may select from almost the entire array of major American corporations, including many far superior to virtually any of the businesses that could be bought in their entirety in a negotiated deal. And fractional-interest purchases can be made in an auction market where prices are set by participants with behavior patterns that sometimes resemble those of an army of manic-depressive lemmings.

Within this gigantic auction arena, it is our job to select businesses with economic characteristics allowing each dollar of retained earnings to be translated eventually into at least a dollar of market value. Despite a lot of mistakes, we have so far achieved this goal. In doing so, we have been greatly assisted by Arthur Okun's patron saint for economists — St. Offset. In some cases, that is, retained earnings attributable to our ownership position have had insignificant or even negative impact on market value, while in other major positions a dollar retained by an investee corporation has been translated into two or more dollars of market value. To date, our corporate over-achievers have more than offset the laggards. If we can continue this record, it will validate our efforts to maximize "economic" earnings, regardless of the impact upon "accounting" earnings.

Satisfactory as our partial-ownership approach has been, what really makes us dance is the purchase of 100% of good businesses at reasonable prices. We've accomplished this feat a few times (and expect to do so again), but it is an extraordinarily difficult job — far more difficult than the purchase at attractive prices of fractional interests.

As we look at the major acquisitions that others made during 1982, our reaction is not envy, but relief that we were non-participants. For in many of these acquisitions, managerial intellect wilted in competition with managerial adrenalin. The thrill of the chase blinded the pursuers to the consequences of the catch. Pascal's observation seems apt: "It has struck me that all men's misfortunes spring from the single cause that they are unable to stay quietly in one room."

(Your Chairman left the room once too often last year and almost starred in the Acquisition Follies of 1982. In retrospect, our major accomplishment of the year was that a very large purchase to which we had firmly committed was unable to be completed for reasons totally beyond our control. Had it come off, this transaction would have consumed extraordinary amounts of time and energy, all for a most uncertain payoff. If we were to introduce graphics to this report, illustrating favorable business developments of the past year, two blank pages depicting this blown deal would be the appropriate centerfold.)

Our partial-ownership approach can be continued soundly only as long as portions of attractive businesses can be acquired at attractive prices. We need a moderately-priced stock market to assist us in this endeavor. The market, like the Lord, helps those who help themselves. But, unlike the Lord, the market does not forgive those who know not what they do. For the investor, a too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favorable business developments.

Should the stock market advance to considerably higher levels, our ability to utilize capital effectively in partial-ownership positions will be reduced or eliminated. This will happen periodically: just ten years ago, at the height of the two-tier market mania (with high-return-on-equity businesses bid to the sky by institutional investors), Berkshire's insurance subsidiaries owned only $18 million in market value of equities, excluding their interest in Blue Chip Stamps. At that time, such equity holdings amounted to about 15% of our insurance company investments versus the present 80%. There were as many good businesses around in 1972 as in 1982, but the prices the stock market placed upon those businesses in 1972 looked absurd. While high stock prices in the future would make our performance look good temporarily, they would hurt our long-term business prospects rather than help them. We currently are seeing early traces of this problem.

Long-Term Corporate Performance

Our gain in net worth during 1982, valuing equities held by our insurance subsidiaries at market value (less capital gain taxes payable if unrealized gains were actually realized) amounted to $208 million. On a beginning net worth base of $519 million, the percentage gain was 40%.

During the 18-year tenure of present management, book value has grown from $19.46 per share to $737.43 per share, or 22.0% compounded annually. You can be certain that this percentage will diminish in the future. Geometric progressions eventually forge their own anchors.

Berkshire's economic goal remains to produce a long-term rate of return well above the return achieved by the average large American corporation. Our willingness to purchase either partial or total ownership positions in favorably-situated businesses, coupled with reasonable discipline about the prices we are willing to pay, should give us a good chance of achieving our goal.

Again this year the gain in market valuation of partially-owned businesses outpaced the gain in underlying economic value of those businesses. For example, $79 million of our $208 million gain is attributable to an increased market price for GEICO. This company continues to do exceptionally well, and we are more impressed than ever by the strength of GEICO's basic business idea and by the management skills of Jack Byrne. (Although not found in the catechism of the better business schools, "Let Jack Do It" works fine as a corporate creed for us.)

However, GEICO's increase in market value during the past two years has been considerably greater than the gain in its intrinsic business value, impressive as the latter has been. We expected such a favorable

variation at some point, as the perception of investors converged with business reality. And we look forward to substantial future gains in underlying business value accompanied by irregular, but eventually full, market recognition of such gains.

Year-to-year variances, however, cannot consistently be in our favor. Even if our partially-owned businesses continue to perform well in an economic sense, there will be years when they perform poorly in the market. At such times our net worth could shrink significantly. We will not be distressed by such a shrinkage; if the businesses continue to look attractive and we have cash available, we simply will add to our holdings at even more favorable prices.

Sources of Reported Earnings

The table below shows the sources of Berkshire's reported earnings. In 1981 and 1982 Berkshire owned about 60% of Blue Chip Stamps which, in turn, owned 80% of Wesco Financial Corporation. The table displays aggregate operating earnings of the various business entities, as well as Berkshire's share of those earnings. All of the significant gains and losses attributable to unusual sales of assets by any of the business entities are aggregated with securities transactions in the line near the bottom of the table, and are not included in operating earnings.

	Earnings Before Income Taxes				*Net Earnings After Tax*	
	Total		*Berkshire Share*		*Berkshire Share*	
	1982	*1981*	*1982*	*1981*	*1982*	*1981*
			(000s omitted)			
Operating Earnings:						
Insurance Group:						
Underwriting	$(21,558)	$ 1,478	$(21,558)	$ 1,478	$(11,345)	$ 798
Net Investment Income	41,620	38,823	41,620	38,823	35,270	32,401
Berkshire-Waumbec Textiles	(1,545)	(2,669)	(1,545)	(2,669)	(862)	(1,493)
Associated Retail Stores	914	1,763	914	1,763	446	759
See's Candies	23,884	20,961	14,235	12,493	6,914	5,910
Buffalo Evening News	(1,215)	(1,217)	(724)	(725)	(226)	(320)
Blue Chip Stamps — Parent	4,182	3,642	2,492	2,171	2,472	2,134
Wesco Financial — Parent	6,156	4,495	2,937	2,145	2,210	1,590
Mutual Savings and Loan	(6)	1,605	(2)	766	1,524	1,536
Precision Steel	1,035	3,453	493	1,648	265	841
Interest on Debt	(14,996)	(14,656)	(12,977)	(12,649)	(6,951)	(6,671)
Other*	2,631	2,985	1,857	1,992	1,780	1,936
Operating Earnings	41,102	60,663	27,742	47,236	31,497	39,421
Sales of securities and unusual sales of assets	36,651	37,801	21,875	33,150	14,877	23,183
Total Earnings — all entities	$ 77,753	$ 98,464	$ 49,617	$ 80,386	$ 46,374	$ 62,604

* Amortization of intangibles arising in accounting for purchases of businesses (i.e. See's, Mutual and Buffalo Evening News) is reflected in the category designated as "Other".

On pages 45-61 of this report we have reproduced the narrative reports of the principal executives of Blue Chip and Wesco, in which they describe 1982 operations. A copy of the full annual report of either company will be mailed to any Berkshire shareholder upon request to Mr. Robert H. Bird for Blue Chip Stamps, 5801 South Eastern Avenue, Los Angeles, California 90040, or to Mrs. Jeanne Leach for Wesco Financial Corporation, 315 East Colorado Boulevard, Pasadena, California 91109.

I believe you will find the Blue Chip chronicle of developments in the Buffalo newspaper situation particularly interesting. There are now only 14 cities in the United States with a daily newspaper whose weekday circulation exceeds that of the Buffalo News. But the real story has been the growth in Sunday circulation. Six years ago, prior to introduction of a Sunday edition of the News, the long-established Courier-Express, as the only Sunday newspaper published in Buffalo, had circulation of 272,000. The News now has Sunday circulation of 367,000, a 35% gain — even though the number of households within the primary circulation area has shown little change during the six years. We know of no city in the United States with a long history of seven-day newspaper publication in which the percentage of households purchasing the Sunday newspaper has grown at anything like this rate. To the contrary, in most cities household penetration figures have grown negligibly, or not at all. Our key managers in Buffalo — Henry Urban, Stan Lipsey, Murray Light, Clyde Pinson, Dave Perona and Dick Feather — deserve great credit for this unmatched expansion in Sunday readership.

As we indicated earlier, undistributed earnings in companies we do not control are now fully as important as the reported operating earnings detailed in the preceding table. The distributed portion of non-controlled earnings, of course, finds its way into that table primarily through the net investment income segment of Insurance Group earnings.

We show below Berkshire's proportional holdings in those non-controlled businesses for which only distributed earnings (dividends) are included in our earnings.

No. of Shares or Share Equiv.			*Cost*	*Market*
			(000s omitted)	
460,650	(a)	Affiliated Publications, Inc.	$ 3,516	$ 16,929
908,800	(c)	Crum & Forster	47,144	48,962
2,101,244	(b)	General Foods, Inc.	66,277	83,680
7,200,000	(a)	GEICO Corporation	47,138	309,600
2,379,200	(a)	Handy & Harman	27,318	46,692
711,180	(a)	Interpublic Group of Companies, Inc.	4,531	34,314
282,500	(a)	Media General	4,545	12,289
391,400	(a)	Ogilvy & Mather Int'l. Inc.	3,709	17,319
3,107,675	(b)	R. J. Reynolds Industries	142,343	158,715
1,531,391	(a)	Time, Inc.	45,273	79,824
1,868,600	(a)	The Washington Post Company	10,628	103,240
			$402,422	$911,564
		All Other Common Stockholdings	21,611	34,058
		Total Common Stocks	$424,033	$945,622

(a) All owned by Berkshire or its insurance subsidiaries.

(b) Blue Chip and/or Wesco own shares of these companies. All numbers represent Berkshire's net interest in the larger gross holdings of the group.

(c) Temporary holding as cash substitute.

In case you haven't noticed, there is an important investment lesson to be derived from this table: nostalgia should be weighted heavily in stock selection. Our two largest unrealized gains are in Washington Post and GEICO, companies with which your Chairman formed his first commercial connections at the ages of 13 and 20, respectively. After straying for roughly 25 years, we returned as investors in the mid-1970s. The table quantifies the rewards for even long-delayed corporate fidelity.

Our controlled and non-controlled businesses operate over such a wide spectrum that detailed commentary here would prove too lengthy. Much financial and operational information regarding the

controlled businesses is included in Management's Discussion on pages 34-39, and in the narrative reports on pages 45-61. However, our largest area of business activity has been, and almost certainly will continue to be, the property-casualty insurance area. So commentary on developments in that industry is appropriate.

Insurance Industry Conditions

We show below an updated table of the industry statistics we utilized in last year's annual report. Its message is clear: underwriting results in 1983 will not be a sight for the squeamish.

	Yearly Change in Premiums Written (%)	*Yearly Change in Premiums Earned (%)*	*Combined Ratio after Policy-holder Dividends*
1972	10.2	10.9	96.2
1973	8.0	8.8	99.2
1974	6.2	6.9	105.4
1975	11.0	9.6	107.9
1976	21.9	19.4	102.4
1977	19.8	20.5	97.2
1978	12.8	14.3	97.5
1979	10.3	10.4	100.6
1980	6.0	7.8	103.1
1981 (Rev.)	3.9	4.1	106.0
1982 (Est.)	5.1	4.6	109.5

Source: Best's Aggregates and Averages.

The Best's data reflect the experience of practically the entire industry, including stock, mutual and reciprocal companies. The combined ratio represents total operating and loss costs as compared to revenue from premiums; a ratio below 100 indicates an underwriting profit, and one above 100 indicates a loss.

For reasons outlined in last year's report, as long as the annual gain in industry premiums written falls well below 10%, you can expect the underwriting picture in the next year to deteriorate. This will be true even at today's lower general rate of inflation. With the number of policies increasing annually, medical inflation far exceeding general inflation, and concepts of insured liability broadening, it is highly unlikely that yearly increases in insured losses will fall much below 10%.

You should be further aware that the 1982 combined ratio of 109.5 represents a "best case" estimate. In a given year, it is possible for an insurer to show almost any profit number it wishes, particularly if it (1) writes "long-tail" business (coverage where current costs can be only estimated, because claim payments are long delayed), (2) has been adequately reserved in the past, or (3) is growing very rapidly. There are indications that several large insurers opted in 1982 for obscure accounting and reserving maneuvers that masked significant deterioration in their underlying businesses. In insurance, as elsewhere, the reaction of weak managements to weak operations is often weak accounting. ("It's difficult for an empty sack to stand upright.")

The great majority of managements, however, try to play it straight. But even managements of integrity may subconsciously be less willing in poor profit years to fully recognize adverse loss trends. Industry statistics indicate some deterioration in loss reserving practices during 1982 and the true combined ratio is likely to be modestly worse than indicated by our table.

The conventional wisdom is that 1983 or 1984 will see the worst of underwriting experience and then, as in the past, the "cycle" will move, significantly and steadily, toward better results. We disagree because of a pronounced change in the competitive environment, hard to see for many years but now quite visible.

To understand the change, we need to look at some major factors that affect levels of corporate profitability generally. Businesses in industries with both substantial over-capacity and a "commodity" product (undifferentiated in any customer-important way by factors such as performance, appearance,

service support, etc.) are prime candidates for profit troubles. These may be escaped, true, if prices or costs are administered in some manner and thereby insulated at least partially from normal market forces. This administration can be carried out (a) legally through government intervention (until recently, this category included pricing for truckers and deposit costs for financial institutions), (b) illegally through collusion, or (c) "extra-legally" through OPEC-style foreign cartelization (with tag-along benefits for domestic non-cartel operators).

If, however, costs and prices are determined by full-bore competition, there is more than ample capacity, and the buyer cares little about whose product or distribution services he uses, industry economics are almost certain to be unexciting. They may well be disastrous.

Hence the constant struggle of every vendor to establish and emphasize special qualities of product or service. This works with candy bars (customers buy by brand name, not by asking for a "two-ounce candy bar") but doesn't work with sugar (how often do you hear, "I'll have a cup of coffee with cream and C & H sugar, please").

In many industries, differentiation simply can't be made meaningful. A few producers in such industries may consistently do well if they have a cost advantage that is both wide and sustainable. By definition such exceptions are few, and, in many industries, are non-existent. For the great majority of companies selling "commodity" products, a depressing equation of business economics prevails: persistent over-capacity without administered prices (or costs) equals poor profitability.

Of course, over-capacity may eventually self-correct, either as capacity shrinks or demand expands. Unfortunately for the participants, such corrections often are long delayed. When they finally occur, the rebound to prosperity frequently produces a pervasive enthusiasm for expansion that, within a few years, again creates over-capacity and a new profitless environment. In other words, nothing fails like success.

What finally determines levels of long-term profitability in such industries is the ratio of supply-tight to supply-ample years. Frequently that ratio is dismal. (It seems as if the most recent supply-tight period in our textile business — it occurred some years back — lasted the better part of a morning.)

In some industries, however, capacity-tight conditions can last a long time. Sometimes actual growth in demand will outrun forecasted growth for an extended period. In other cases, adding capacity requires very long lead times because complicated manufacturing facilities must be planned and built.

But in the insurance business, to return to that subject, capacity can be instantly created by capital plus an underwriter's willingness to sign his name. (Even capital is less important in a world in which state-sponsored guaranty funds protect many policyholders against insurer insolvency.) Under almost all conditions except that of fear for survival — produced, perhaps, by a stock market debacle or a truly major natural disaster — the insurance industry operates under the competitive sword of substantial overcapacity. Generally, also, despite heroic attempts to do otherwise, the industry sells a relatively undifferentiated commodity-type product. (Many insureds, including the managers of large businesses, do not even know the names of their insurers.) Insurance, therefore, would seem to be a textbook case of an industry usually faced with the deadly combination of excess capacity and a "commodity" product.

Why, then, was underwriting, despite the existence of cycles, generally profitable over many decades? (From 1950 through 1970, the industry combined ratio averaged 99.0, allowing all investment income plus 1% of premiums to flow through to profits.) The answer lies primarily in the historic methods of regulation and distribution. For much of this century, a large portion of the industry worked, in effect, within a legal quasi-administered pricing system fostered by insurance regulators. While price competition existed, it was not pervasive among the larger companies. The main competition was for agents, who were courted via various non-price-related strategies.

For the giants of the industry, most rates were set through negotiations between industry "bureaus" (or through companies acting in accord with their recommendations) and state regulators. Dignified haggling occurred, but it was between company and regulator rather than between company and customer. When the dust settled, Giant A charged the same price as Giant B — and both companies and agents were prohibited by law from cutting such filed rates.

The company-state negotiated prices included specific profit allowances and, when loss data indicated that current prices were unprofitable, both company managements and state regulators expected that they would act together to correct the situation. Thus, most of the pricing actions of the giants of the industry were "gentlemanly", predictable, and profit-producing. Of prime importance — and in contrast to the way most of the business world operated — insurance companies could legally price their way to profitability even in the face of substantial over-capacity.

That day is gone. Although parts of the old structure remain, far more than enough new capacity exists outside of that structure to force all parties, old and new, to respond. The new capacity uses various methods of distribution and is not reluctant to use price as a prime competitive weapon. Indeed, it relishes that use. In the process, customers have learned that insurance is no longer a one-price business. They won't forget.

Future profitability of the industry will be determined by current competitive characteristics, not past ones. Many managers have been slow to recognize this. It's not only generals that prefer to fight the last war. Most business and investment analysis also comes from the rear-view mirror. It seems clear to us, however, that only one condition will allow the insurance industry to achieve significantly improved underwriting results. That is the same condition that will allow better results for the aluminum, copper, or corn producer — a major narrowing of the gap between demand and supply.

Unfortunately, there can be no surge in demand for insurance policies comparable to one that might produce a market tightness in copper or aluminum. Rather, the supply of available insurance coverage must be curtailed. "Supply", in this context, is mental rather than physical: plants or companies need not be shut; only the willingness of underwriters to sign their names need be curtailed.

This contraction will not happen because of generally poor profit levels. Bad profits produce much hand-wringing and finger-pointing. But they do not lead major sources of insurance capacity to turn their backs on very large chunks of business, thereby sacrificing market share and industry significance.

Instead, major capacity withdrawals require a shock factor such as a natural or financial "megadisaster". One might occur tomorrow — or many years from now. The insurance business — even taking investment income into account — will not be particularly profitable in the meantime.

When supply ultimately contracts, large amounts of business will be available for the few with large capital capacity, a willingness to commit it, and an in-place distribution system. We would expect great opportunities for our insurance subsidiaries at such a time.

During 1982, our insurance underwriting deteriorated far more than did the industry's. From a profit position well above average, we slipped to a performance modestly below average. The biggest swing was in National Indemnity's traditional coverages. Lines that have been highly profitable for us in the past are now priced at levels that guarantee underwriting losses. In 1983 we expect our insurance group to record an average performance in an industry in which average is very poor.

Two of our stars, Milt Thornton at Cypress and Floyd Taylor at Kansas Fire and Casualty, continued their outstanding records of producing an underwriting profit every year since joining us. Both Milt and Floyd simply are incapable of being average. They maintain a passionately proprietary attitude toward their operations and have developed a business culture centered upon unusual cost-consciousness and customer service. It shows on their scorecards.

During 1982, parent company responsibility for most of our insurance operations was given to Mike Goldberg. Planning, recruitment, and monitoring all have shown significant improvement since Mike replaced me in this role.

GEICO continues to be managed with a zeal for efficiency and value to the customer that virtually guarantees unusual success. Jack Byrne and Bill Snyder are achieving the most elusive of human goals — keeping things simple and remembering what you set out to do. In Lou Simpson, additionally, GEICO has the best investment manager in the property-casualty business. We are happy with every aspect of

this operation. GEICO is a magnificent illustration of the high-profit exception we described earlier in discussing commodity industries with over-capacity — a company with a wide and sustainable cost advantage. Our 35% interest in GEICO represents about $250 million of premium volume, an amount considerably greater than all of the direct volume we produce.

Issuance of Equity

Berkshire and Blue Chip are considering merger in 1983. If it takes place, it will involve an exchange of stock based upon an identical valuation method applied to both companies. The one other significant issuance of shares by Berkshire or its affiliated companies that occurred during present management's tenure was in the 1978 merger of Berkshire with Diversified Retailing Company.

Our share issuances follow a simple basic rule: we will not issue shares unless we receive as much intrinsic business value as we give. Such a policy might seem axiomatic. Why, you might ask, would anyone issue dollar bills in exchange for fifty-cent pieces? Unfortunately, many corporate managers have been willing to do just that.

The first choice of these managers in making acquisitions may be to use cash or debt. But frequently the CEO's cravings outpace cash and credit resources (certainly mine always have). Frequently, also, these cravings occur when his own stock is selling far below intrinsic business value. This state of affairs produces a moment of truth. At that point, as Yogi Berra has said, "You can observe a lot just by watching." For shareholders then will find which objective the management truly prefers — expansion of domain or maintenance of owners' wealth.

The need to choose between these objectives occurs for some simple reasons. Companies often sell in the stock market below their intrinsic business value. But when a company wishes to sell out completely, in a negotiated transaction, it inevitably wants to — and usually can — receive full business value in whatever kind of currency the value is to be delivered. If cash is to be used in payment, the seller's calculation of value received couldn't be easier. If stock of the buyer is to be the currency, the seller's calculation is still relatively easy: just figure the market value in cash of what is to be received in stock.

Meanwhile, the buyer wishing to use his own stock as currency for the purchase has no problems if the stock is selling in the market at full intrinsic value.

But suppose it is selling at only half intrinsic value. In that case, the buyer is faced with the unhappy prospect of using a substantially undervalued currency to make its purchase.

Ironically, were the buyer to instead be a seller of its *entire* business, it too could negotiate for, and probably get, full intrinsic business value. But when the buyer makes a partial sale of itself — *and that is what the issuance of shares to make an acquisition amounts to* — it can customarily get no higher value set on its shares than the market chooses to grant it.

The acquirer who nevertheless barges ahead ends up using an undervalued (market value) currency to pay for a fully valued (negotiated value) property. In effect, the acquirer must give up $2 of value to receive $1 of value. Under such circumstances, a marvelous business purchased at a fair sales price becomes a terrible buy. For gold valued as gold cannot be purchased intelligently through the utilization of gold — or even silver — valued as lead.

If, however, the thirst for size and action is strong enough, the acquirer's manager will find ample rationalizations for such a value-destroying issuance of stock. Friendly investment bankers will reassure him as to the soundness of his actions. (Don't ask the barber whether you need a haircut.)

A few favorite rationalizations employed by stock-issuing managements follow:

(a) "The company we're buying is going to be worth a lot more in the future." (Presumably so is the interest in the old business that is being traded away; future prospects are implicit in the business valuation process. If 2X is issued for X, the imbalance still exists when both parts double in business value.)

(b) "We have to grow." (Who, it might be asked, is the "we"? For present shareholders, the reality is that all existing businesses shrink when shares are issued. Were Berkshire to issue shares tomorrow for an acquisition, Berkshire would own everything that it now owns plus the new business, but *your* interest in such hard-to-match businesses as See's Candy Shops, National Indemnity, etc. would automatically be reduced. If (1) your family owns a 120-acre farm and (2) you invite a neighbor with 60 acres of comparable land to merge his farm into an equal partnership — with you to be managing partner, then (3) your managerial domain will have grown to 180 acres but you will have permanently shrunk by 25% your family's ownership interest in both acreage and crops. Managers who want to expand their domain at the expense of owners might better consider a career in government.)

(c) "Our stock is undervalued and we've minimized its use in this deal — but we need to give the selling shareholders 51% in stock and 49% in cash so that certain of those shareholders can get the tax-free exchange they want." (This argument acknowledges that it is beneficial to the acquirer to hold down the issuance of shares, and we like that. But if it hurts the old owners to utilize shares on a 100% basis, it very likely hurts on a 51% basis. After all, a man is not charmed if a spaniel defaces his lawn, just because it's a spaniel and not a St. Bernard. And the wishes of sellers can't be the determinant of the best interests of the buyer — what would happen if, heaven forbid, the seller insisted that as a condition of merger the CEO of the acquirer be replaced?)

There are three ways to avoid destruction of value for old owners when shares are issued for acquisitions. One is to have a true business-value-for-business-value merger, such as the Berkshire-Blue Chip combination is intended to be. Such a merger attempts to be fair to shareholders of *both* parties, with each receiving just as much as it gives in terms of intrinsic business value. The Dart Industries-Kraft and Nabisco-Standard Brands mergers appeared to be of this type, but they are the exceptions. It's not that acquirers wish to avoid such deals; it's just that they are very hard to do.

The second route presents itself when the acquirer's stock sells at or above its intrinsic business value. In that situation, the use of stock as currency actually may enhance the wealth of the acquiring company's owners. Many mergers were accomplished on this basis in the 1965-69 period. The results were the converse of most of the activity since 1970: the shareholders of the *acquired* company received very inflated currency (frequently pumped up by dubious accounting and promotional techniques) and were the losers of wealth through such transactions.

During recent years the second solution has been available to very few large companies. The exceptions have primarily been those companies in glamorous or promotional businesses to which the market temporarily attaches valuations at or above intrinsic business valuation.

The third solution is for the acquirer to go ahead with the acquisition, but then subsequently repurchase a quantity of shares equal to the number issued in the merger. In this manner, what originally was a stock-for-stock merger can be converted, effectively, into a cash-for-stock acquisition. Repurchases of this kind are damage-repair moves. Regular readers will correctly guess that we much prefer repurchases that directly enhance the wealth of owners instead of repurchases that merely repair previous damage. Scoring touchdowns is more exhilarating than recovering one's fumbles. But, when a fumble has occurred, recovery is important and we heartily recommend damage-repair repurchases that turn a bad stock deal into a fair cash deal.

The language utilized in mergers tends to confuse the issues and encourage irrational actions by managers. For example, "dilution" is usually carefully calculated on a pro forma basis for both book value and current earnings per share. Particular emphasis is given to the latter item. When that calculation is negative (dilutive) from the acquiring company's standpoint, a justifying explanation will be made (internally, if not elsewhere) that the lines will cross favorably at some point in the future. (While deals often fail in practice, they never fail in projections — if the CEO is visibly panting over a prospective acquisition, subordinates and consultants will supply the requisite projections to rationalize any price.) Should the calculation produce numbers that are immediately positive — that is, anti-dilutive — for the acquirer, no comment is thought to be necessary.

The attention given this form of dilution is overdone: current earnings per share (or even earnings per share of the next few years) are an important variable in most business valuations, but far from all-powerful.

There have been plenty of mergers, non-dilutive in this limited sense, that were instantly value-destroying for the acquirer. And some mergers that have diluted current and near-term earnings per share have in fact been value-enhancing. What really counts is whether a merger is dilutive or anti-dilutive in terms of intrinsic business value (a judgment involving consideration of many variables). We believe calculation of dilution from this viewpoint to be all-important (and too seldom made).

A second language problem relates to the equation of exchange. If Company A announces that it will issue shares to merge with Company B, the process is customarily described as "Company A to Acquire Company B", or "B Sells to A". Clearer thinking about the matter would result if a more awkward but more accurate description were used: "Part of A sold to acquire B", or "Owners of B to receive part of A in exchange for their properties". In a trade, what you are giving is just as important as what you are getting. This remains true even when the final tally on what is being given is delayed. Subsequent sales of common stock or convertible issues, either to complete the financing for a deal or to restore balance sheet strength, must be fully counted in evaluating the fundamental mathematics of the original acquisition. (If corporate pregnancy is going to be the consequence of corporate mating, the time to face that fact is before the moment of ecstasy.)

Managers and directors might sharpen their thinking by asking themselves if they would sell 100% of their business on the same basis they are being asked to sell part of it. And if it isn't smart to sell all on such a basis, they should ask themselves why it is smart to sell a portion. A cumulation of small managerial stupidities will produce a major stupidity — not a major triumph. (Las Vegas has been built upon the wealth transfers that occur when people engage in seemingly-small disadvantageous capital transactions.)

The "giving versus getting" factor can most easily be calculated in the case of registered investment companies. Assume Investment Company X, selling at 50% of asset value, wishes to merge with Investment Company Y. Assume, also, that Company X therefore decides to issue shares equal in market value to 100% of Y's asset value.

Such a share exchange would leave X trading $2 of its previous intrinsic value for $1 of Y's intrinsic value. Protests would promptly come forth from both X's shareholders and the SEC, which rules on the fairness of registered investment company mergers. Such a transaction simply would not be allowed.

In the case of manufacturing, service, financial companies, etc., values are not normally as precisely calculable as in the case of investment companies. But we have seen mergers in these industries that just as dramatically destroyed value for the owners of the acquiring company as was the case in the hypothetical illustration above. This destruction could not happen if management and directors would assess the fairness of any transaction by using the same yardstick in the measurement of both businesses.

Finally, a word should be said about the "double whammy" effect upon owners of the acquiring company when value-diluting stock issuances occur. Under such circumstances, the first blow is the loss of intrinsic business value that occurs through the merger itself. The second is the downward revision in market valuation that, quite rationally, is given to that now-diluted business value. For current and prospective owners understandably will not pay as much for assets lodged in the hands of a management that has a record of wealth-destruction through unintelligent share issuances as they will pay for assets entrusted to a management with precisely equal operating talents, but a known distaste for anti-owner actions. Once management shows itself insensitive to the interests of owners, shareholders will suffer a long time from the price/value ratio afforded their stock (relative to other stocks), no matter what assurances management gives that the value-diluting action taken was a one-of-a-kind event.

Those assurances are treated by the market much as one-bug-in-the-salad explanations are treated at restaurants. Such explanations, even when accompanied by a new waiter, do not eliminate a drop in the demand (and hence market value) for salads, both on the part of the offended customer and his neighbors pondering what to order. Other things being equal, the highest stock market prices relative to intrinsic business value are given to companies whose managers have demonstrated their unwillingness to issue shares at any time on terms unfavorable to the owners of the business.

At Berkshire, or any company whose policies we determine (including Blue Chip and Wesco), we will issue shares only if our owners receive in business value as much as we give. We will not equate activity with progress or corporate size with owner-wealth.

Miscellaneous

This annual report is read by a varied audience, and it is possible that some members of that audience may be helpful to us in our acquisition program.

We prefer:

(1) large purchases (at least $5 million of after-tax earnings),
(2) demonstrated consistent earning power (future projections are of little interest to us, nor are "turn-around" situations),
(3) businesses earning good returns on equity while employing little or no debt,
(4) management in place (we can't supply it),
(5) simple businesses (if there's lots of technology, we won't understand it),
(6) an offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

We will not engage in unfriendly transactions. We can promise complete confidentiality and a very fast answer as to possible interest — customarily within five minutes. Cash purchases are preferred, but we will consider the use of stock when it can be done on the basis described in the previous section.

* * * * *

Our shareholder-designated contributions program met with enthusiasm again this year; 95.8% of eligible shares participated. This response was particularly encouraging since only $1 per share was made available for designation, down from $2 in 1981. If the merger with Blue Chip takes place, a probable by-product will be the attainment of a consolidated tax position that will significantly enlarge our contribution base and give us a potential for designating bigger per-share amounts in the future.

If you wish to participate in future programs, we strongly urge that you immediately make sure that your shares are registered in the actual owner's name, not a "street" or nominee name. For new shareholders, a more complete description of the program is on pages 62-63.

* * * * *

In a characteristically rash move, we have expanded World Headquarters by 252 square feet (17%), coincidental with the signing of a new five-year lease at 1440 Kiewit Plaza. The five people who work here with me — Joan Atherton, Mike Goldberg, Gladys Kaiser, Verne McKenzie and Bill Scott — outproduce corporate groups many times their number. A compact organization lets all of us spend our time managing the business rather than managing each other.

Charlie Munger, my partner in management, will continue to operate from Los Angeles whether or not the Blue Chip merger occurs. Charlie and I are interchangeable in business decisions. Distance impedes us not at all: we've always found a telephone call to be more productive than a half-day committee meeting.

* * * * *

Two of our managerial stars retired this year: Phil Liesche at 65 from National Indemnity Company, and Ben Rosner at 79 from Associated Retail Stores. Both of these men made you, as shareholders of Berkshire, a good bit wealthier than you otherwise would have been. National Indemnity has been the most important operation in Berkshire's growth. Phil and Jack Ringwalt, his predecessor, were the two prime movers in National Indenmnity's success. Ben Rosner sold Associated Retail Stores to Diversified Retailing Company for cash in 1967, promised to stay on only until the end of the year, and then hit business home runs for us for the next fifteen years.

Both Ben and Phil ran their businesses for Berkshire with every bit of the care and drive that they would have exhibited had they personally owned 100% of these businesses. No rules were necessary to enforce or even encourage this attitude; it was embedded in the character of these men long before we came on the scene. Their good character became our good fortune. If we can continue to attract managers with the qualities of Ben and Phil, you need not worry about Berkshire's future.

Warren E. Buffett
Chairman of the Board



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

Kiewit Plaza Building
Thirty-Sixth and Farnam Streets
Omaha, Nebraska 68131

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. and consolidated subsidiaries as of January 1, 1983 and January 2, 1982 and the related consolidated statements of earnings and changes in financial position for each of the years in the three-year period ended January 1, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Blue Chip Stamps and Wesco Financial Corporation, which statements reflect total assets constituting 22 percent and 23 percent for 1982 and 1981, respectively, and total revenues constituting 45 percent, 43 percent and 37 percent in 1982, 1981 and 1980, respectively, of the related consolidated totals. These financial statements were examined by other auditors whose report thereon have been furnished to us and our opinion expressed herein, insofar as it relates to Blue Chip Stamps and Wesco Financial Corporation, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of Berkshire Hathaway Inc. and consolidated subsidiaries at January 1, 1983 and January 2, 1982 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended January 1, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 4, 1983

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

ASSETS	Jan. 1, 1983	Jan. 2, 1982
Cash	$ 7,392	$ 7,232
Investments, other than investments in affiliates:		
Fixed maturities, principally bonds (market value: Jan. 1, 1983 — $182,153; Jan. 2, 1982 — $164,075)	189,330	206,078
Marketable equity securities (Notes 2 and 3)	920,909	641,269
Invested cash, represented by various short-term investments at cost which approximates market	51,814	63,529
Total investments, other than affiliates	1,162,053	910,876
Investment in Wesco Financial Corporation (Note 4)	75,858	68,874
Accounts receivable from customers, agents and others (Note 5)	109,768	49,901
Inventories (Note 6)	20,670	22,120
Real estate, equipment, furniture and leasehold improvements, at cost less allowance for depreciation and amortization (Note 7)	54,070	51,472
Deferred insurance premium acquisition costs	10,264	12,313
Other assets	45,549	35,123
	$1,485,624	$1,157,911
LIABILITIES AND STOCKHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 193,477	$ 190,970
Unearned premiums	58,414	62,269
Liability for unredeemed trading stamps	60,240	64,262
Accounts payable, accruals and other liabilities	48,340	51,915
Current income taxes	21,868	13,759
Deferred income taxes	149,987	87,089
Term debt and other borrowings (Notes 8 and 9)	137,581	97,768
Minority shareholders' interests	88,234	70,416
	758,141	638,448
Stockholders' equity:		
Common stock of $5 par value. Authorized 1,250,000 shares; issued 1,214,283 shares, including 227,774 shares held in treasury	6,071	6,071
Capital in excess of par value	3,517	3,517
Unrealized appreciation of marketable equity securities, net of provision for deemed applicable income taxes (Note 11)	358,121	196,475
Retained earnings (Notes 9 and 11)	400,432	354,058
	768,141	560,121
Less common stock in treasury, at cost (Note 11)	40,658	40,658
Total stockholders' equity	727,483	519,463
Commitments (Note 15)		
	$1,485,624	$1,157,911

See accompanying Notes to Consolidated Financial Statements

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in thousands except per share amounts)

	Fiscal Year Ended Saturday nearest December 31,		
	1982	*1981*	*1980*
Income items:			
Insurance premiums earned	$152,945	$159,013	$ 185,187
Net sales and service revenues	267,622	263,374	259,200
Interest and dividend income	52,416	49,189	38,966
Equity in earnings excluding realized investment gain of Wesco Financial Corporation	6,408	7,120	8,804
	479,391	478,696	492,157
Cost and expense items:			
Insurance losses and loss adjustment expenses	121,996	103,417	118,230
Cost of products and services sold	146,081	155,661	160,261
Insurance underwriting expenses	52,508	54,119	60,219
Selling, general and administrative expenses	104,109	93,756	84,188
Interest and financing costs	11,828	11,486	9,185
	436,522	418,439	432,083
Earnings from continuing operations including minority interest in consolidated subsidiaries, before applicable income taxes and realized investment gain	42,869	60,257	60,074
Income taxes applicable to above	2,386	12,091	13,943
	40,483	48,166	46,131
Minority interest applicable to above	8,986	8,443	7,647
Earnings from continuing operations before realized investment gain	31,497	39,723	38,484
Equity in earnings before securities losses of unconsolidated banking subsidiary, divested as of Dec. 31, 1980 (Note 14)	—	—	4,731
Earnings before realized investment gain	31,497	39,723	43,215
Realized investment gain — continuing operations, net (Note 13)	14,877	22,881	10,790
Equity in securities losses of unconsolidated banking subsidiary, divested as of Dec. 31, 1980 (Note 14)	—	—	(883)
Net earnings	$ 46,374	$ 62,604	$ 53,122
Average shares outstanding	986,509	986,322	1,027,145
Per share:			
Earnings from continuing operations before realized investment gain	$ 31.93	$ 40.27	$ 37.47
Earnings before realized investment gain	31.93	40.27	42.07
Net earnings	47.01	63.47	51.72

See accompanying Notes to Consolidated Financial Statements

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(dollars in thousands)

	Fiscal Year Ended Saturday nearest December 31,		
	1982	*1981*	*1980*
Funds provided:			
From operations:			
Net earnings	$46,374	$62,604	$ 53,122
Minority interest in earnings	18,320	11,162	8,256
Earnings including minority interest	64,694	73,766	61,378
Charges (credits) to earnings not requiring (providing) funds:			
Equity in undistributed earnings of unconsolidated subsidiaries	(6,984)	(5,834)	(6,473)
Increase (decrease) in unpaid insurance losses and loss adjustment expenses	2,507	(8,158)	1,431
Decreases in unearned insurance premiums	(3,855)	(11,012)	(323)
Depreciation and amortization of property, plant and equipment, including leaseholds	6,276	5,753	5,144
Decrease (increase) in deferred insurance premium acquisition costs	2,049	1,850	(511)
Decrease (increase) in accounts receivable	(59,867)	(40)	2,370
Decrease in inventories	1,450	1,682	1,902
Increase (decrease) in liability for income taxes applicable to earnings	8,144	5,697	(861)
Increase in recoverable Federal income taxes	(9,037)	—	—
Increase (decrease) in liability for unredeemed trading stamps	(4,022)	209	(3,471)
Increase (decrease) in accounts payable, accruals and other liabilities	(3,575)	8,453	3,952
Other	(1,289)	(1,050)	895
	(68,203)	(2,450)	4,055
Funds provided from (used in) operations	(3,509)	71,316	65,433
Proceeds from issuance of debt, net of expense	41,900	—	59,992
Decrease in cash	—	2,761	4,931
	$38,391	$74,077	$130,356
Funds used:			
Additions to property, plant and equipment, net of disposals	$ 8,874	$ 5,741	$ 6,835
Repayment of debt	2,187	6,576	10,857
Dividends paid to minority stockholders	502	502	502
Cost of net purchases (sales) of investments:			
U.S. Treasury bills and short-term obligations	(11,715)	12,983	32,374
Bonds and other fixed maturity securities	(16,748)	18,276	705
Marketable equity securities	55,131	29,954	78,343
Unconsolidated subsidiaries	—	45	740
Net purchase of investments	26,668	61,258	112,162
Increase in cash	160	—	—
	$38,391	$74,077	$130,356

See accompanying Notes to Consolidated Financial Statements

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 1, 1983
(dollars in thousands)

(1) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The accompanying Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (the "Company" or "Berkshire") consolidated with accounts of its majority owned subsidiaries. Wholly-owned subsidiaries which are consolidated include companies engaged in the property/casualty insurance business (the "Insurance Group"), in marketing of textile products, and in apparel retailing. Additionally included in consolidation are the accounts of Blue Chip Stamps ("Blue Chip"), a California corporation, approximately 60% owned by the Company, and Blue Chip's wholly-owned subsidiaries. Blue Chip is engaged directly in the promotional services business; its wholly-owned subsidiaries include See's Candy Shops, Incorporated ("See's") engaged in the candy business, and the Buffalo Evening News (the "News") which publishes a newspaper.

Blue Chip owns approximately 80% of the outstanding capital stock of Wesco Financial Corporation ("Wesco"). Berkshire's economic interest in Wesco represents slightly less than 50% of that company; accordingly, the investment in Wesco is accounted for in the accompanying Consolidated Financial Statements pursuant to the equity method of accounting.

Accounts of subsidiaries engaged in the property and casualty insurance business are maintained on the basis of a calendar year. Accounts of Berkshire, its textile and retailing subsidiaries, Blue Chip and See's are maintained on the basis of a 52-53 week fiscal year ending with respect to December 31. The 1982 operations of the textile and apparel retailing businesses covered the 52 weeks ended January 1, 1983. The 1982 operations of Blue Chip and See's covered the 52 week period ended December 25, 1982. Accounts of the News are maintained on the basis of a calendar year.

(b) Investments in Securities, Other Than Affiliates

Investments in obligations with fixed dates of maturity — bonds and redeemable preferred stocks — are stated at cost, adjusted where appropriate for accretion of discount or amortization of premium.

Investments in marketable equity securities held by members of the Insurance Group are carried at market value. Investments in marketable equity securities held by Berkshire and by subsidiaries of Berkshire which are not members of the Insurance Group are carried at the lower of aggregate cost or market.

(c) Insurance Premiums

Insurance premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on a monthly or daily pro rata basis and are stated after deduction for reinsurance placed with reinsurers in the amount of $1,717 at December 31, 1982 and $1,617 at December 31, 1981.

Dividends to policyholders, primarily relating to workers' compensation coverages, are reflected in the accompanying statements of earnings as a deduction from earned premiums; this reduction amounted to $3,262 for 1982, $3,534 for 1981, $2,405 for 1980.

(d) Premium Acquisition Costs

For financial reporting purposes, premium acquisition costs such as commissions, premium taxes and a portion of certain other underwriting costs are deferred, subject to ultimate recoverability generally estimated on a company by company basis without regard to anticipated investment income; such deferred costs are charged against financial statement income in subsequent periods when the related premiums are earned. For statutory insurance accounting and income tax reporting purposes, premium acquisition costs are charged against income when incurred.

(1) Summary of Significant Accounting Policies and Practices *(Continued)*

(e) Losses and Loss Adjustment Expenses

The Insurance Group provides for losses and loss adjustment expenses for unsettled cases based on case basis estimates plus estimates of incurred but not reported losses. Unsettled case basis estimates relating to assumed reinsurance are based on loss reports received from the primary insurers. The provision is reduced for amounts recoverable on account of reinsurance ceded; these reductions amounted to $6,620 at December 31, 1982 and $6,162 at December 31, 1981.

An aggregate liability amounting to $3,566 at December 31, 1982 was additionally established at present value on a contract-by-contract basis with respect to periodic payment settlement contract obligations of members of the Insurance Group. The range of interest rates used to discount those liabilities, for financial reporting purposes, ranged from 10.6% to 15%, with a weighted average of approximately 12%. The specific rate applicable to a given contract is dependent upon market rates at the inception date of the contract. For statutory insurance accounting purposes, these liabilities were discounted at a rate of 7% as prescribed by regulatory authority. Members of the Insurance Group were not obligated with respect to any such contracts at December 31, 1981.

Incurred losses and loss adjustment expenses in the accompanying Consolidated Statements of Earnings are net of recoveries of salvage and subrogation collected or in process of collection in accordance with statutory accounting requirements for insurance companies. Any additional amounts that may be recoverable as salvage or on account of subrogation, relating principally to automobile physical damage coverages, are not recognized as they are considered immaterial in the aggregate.

(f) Stamp Service Accounting

Blue Chip recognizes stamp revenues and related redemption costs upon issuance of its trading stamps. A liability for unredeemed trading stamps is maintained consisting of management's estimates of the future cost of redemption merchandise and service; the estimates are periodically revised to take into account the effect on redemption costs of changing facts and circumstances. Such revision to the estimates occurred at the end of 1982, with the effect of increasing Berkshire's 1982 consolidated net earnings approximately $202 (20 cents per share); no revision to the estimates occurred at the end of 1981; revisions to the estimates occurred at the end of 1980 with the effect of increasing Berkshire's 1980 consolidated net earnings approximately $970 (94 cents per share). For both 1982 and 1980, the revised estimates take into account, among other factors, the probable effects of Blue Chip's declining volume of stamp issuance.

(g) Real Estate, Equipment, Furniture and Leasehold Improvements

These items of property (including significant betterments and renewals) are carried at cost, depreciated principally on a straight line basis over their useful lives estimated at the date of acquisition. Maintenance, repairs and renewals of a minor nature are generally charged to operations as incurred.

(h) Inventories

Inventories are stated at cost, determined for Berkshire and for the News under the last-in, first-out ("LIFO") method. Inventories of other consolidated subsidiaries are stated at the lower of cost or market, with cost determined under the first-in, first-out or average cost methods.

(1) Summary of Significant Accounting Policies and Practices *(Continued)*

(j) Income Taxes

Berkshire and its eligible (over 80% owned domestic) subsidiaries file a consolidated Federal income tax return. Blue Chip and its subsidiaries also file a consolidated Federal income tax return.

Through October 2, 1982 Berkshire made provision for income taxes, at rates applicable to dividend income, with respect to its equity in earnings of Blue Chip, on the assumption that undistributed earnings would eventually be distributed to Berkshire and be subject to such additional income taxes. Cumulative deferred taxes provided pursuant to such assumption aggregated $4,994 at October 2, 1982. In the fourth quarter of 1982, the Company and Blue Chip jointly announced that they were considering a statutory merger of the two corporations to occur some time in 1983. Accordingly, Berkshire made no charge to its consolidated income for such additional taxes with respect to Blue Chip's 1982 fourth quarter earnings. Such provisions, if made, would have resulted in a charge of $639 (65 cents per share) to operating earnings and of $838 (85 cents per share) to realized investment gain.

Deferred or prepaid income taxes are recognized in the accompanying Consolidated Financial Statements with respect to certain items of income and deductions which are recognized in the financial statements in time periods that differ from those in which they are included in the income tax returns filed for the companies. The principal such "timing difference", for which deferred income taxes of $4,722 at January 1, 1983 and $5,664 at January 2, 1982 are recognized, is deferred insurance premium acquisition costs (see note 1(d) above). Other assets include prepaid income taxes of Blue Chip amounting to $19,086 at December 25, 1982 and $12,236 at December 26, 1981 primarily in recognition of timing differences with respect to its stamp redemption expenses.

The liability for deferred income taxes reflected in the consolidated balance sheets also includes $139,270 at January 1, 1983 and $76,407 at January 2, 1982 representing amounts computed at capital gain rates on the net excess of balance sheet carrying value over cost of marketable equity securities held by members of the Insurance Group.

(2) Investments in Marketable Equity Securities

A summary of aggregate cost, aggregate approximate market value, and balance sheet carrying value of investments in marketable equity securities is as follows:

	January 1, 1983		
Held by	Cost	Market	Carrying Value
Insurance Group	$296,178	$793,569	$793,569
Berkshire	59,570	68,893	59,570
Blue Chip Stamps and its wholly-owned subsidiaries (determined as of Dec. 25, 1982)	67,770	82,663	67,770
	$423,518	$945,125	$920,909

	January 2, 1982		
Held by	Cost	Market	Carrying Value
Insurance Group	$263,866	$536,748	$536,748
Berkshire	25,471	27,934	25,471
Blue Chip Stamps and its wholly-owned subsidiaries (determined as of Dec. 26, 1981)	79,050	96,306	79,050
	$368,387	$660,988	$641,269

Reflected in Blue Chip's marketable equity securities at January 2, 1982 was Blue Chip's investment in non-voting shares of Pinkerton's, Inc. with respect to which, in December 1982, Blue Chip entered into a contract of sale for settlement in early 1983. For purposes of these financial statements, the disposition by Blue Chip of its investment in Pinkerton's Inc., is treated as having occurred in 1982 and, accordingly, Blue Chip's marketable equity securities at January 1, 1983 does not reflect any investment in Pinkerton's Inc.

The net excess of aggregate market value over aggregate cost of marketable equity securities held at January 1, 1983 represented unrealized gains less unrealized losses as follows:

	Insurance Group	Berkshire, Blue Chip and its wholly-owned subsidiaries	Combined Total
Unrealized gains	$498,303	$24,216	$522,519
Unrealized losses	912	—	912
Net excess of gains	$497,391	$24,216	$521,607

(3) Investment in GEICO Corporation

Included in marketable equity securities held by the Insurance Group at December 31, 1982 and December 31, 1981 are 7,200,000 common shares of GEICO Corporation. The approximate market and balance sheet carrying value of this investment was $310,000 at December 31, 1982 and $199,800 at December 31, 1981; the approximate cost of the shares was $47,000. The shares possessed approximately 35% of the voting rights of all GEICO shares outstanding at December 31, 1982. With respect to these shares, Berkshire is required, pursuant to Order of the Superintendent of Insurance of the District of Columbia, the corporate domicile of GEICO, to maintain an independent proxy arrangement. It is prohibited from seeking or causing to change the independent proxy. Also, under the Order, no officer or director of Berkshire, or any affiliate or subsidiary of Berkshire, is permitted to serve as a director of GEICO. As a result of the Order, Berkshire is divested of its voting rights with respect to its holdings of GEICO and, accordingly, does not use the equity method of accounting for this investment.

(4) Investment in Wesco Financial Corporation

Wesco Financial Corporation is approximately 80% owned by Blue Chip. The investment in Wesco is carried in the accompanying Consolidated Balance Sheets at Blue Chip's cost plus Blue Chip's equity in Wesco's undistributed earnings since Blue Chip's date of acquisition. Blue Chip's equity in net assets of Wesco exceeds its carrying value; such excess is being amortized into income over a forty year period; the unamortized excess was $18,182 at the end of 1982 and $18,806 at the end of 1981.

Wesco owns Mutual Savings and Loan Association, Pasadena, California and has subsidiaries engaged in the steel products service business. Wesco and its consolidated subsidiaries also hold investments in marketable securities which at December 31, 1982 had a cost of $58,115 and a market value of $70,613. Summarized consolidated financial information of Wesco and its subsidiaries appears elsewhere herein.

(5) Receivables

Accounts receivable from customers, agents and others were made up of the following:

	Jan. 1, 1983	*Jan. 2, 1982*
Insurance Group:		
Agents' balances and premiums in course of collection	$ 20,569	$21,596
Investment income due and accrued	5,926	5,907
Reinsurance recoverable on loss payments	659	5,653
Amounts due from sales of securities	5,398	321
	32,552	33,477
Contract proceeds receivable by Blue Chip from disposition of its investment in Pinkerton's Inc. and Pinkerton Holding Corporation	59,136	—
Trade accounts receivable of other businesses, net of allowances for doubtful accounts	18,080	16,424
Total receivables	$109,768	$49,901

(6) Inventories

A summary of inventories follows:

	Jan. 1, 1983	Jan. 2, 1982
Textile business	$ 4,355	$ 5,643
Retailing business	5,802	6,077
Candy business	5,616	5,635
Other	4,897	4,765
	$ 20,670	$22,120

The carrying amounts for inventories determined under the LIFO method were approximately $2,694 and $3,566 less than their aggregate replacement cost at year-end 1982 and 1981 respectively.

(7) Real Estate, Equipment, Furniture and Leasehold Improvements

The composition of property, plant and equipment at the end of the past two years is shown below:

	Jan. 1, 1983	Jan. 2, 1982
Land	$ 4,283	$ 3,889
Buildings	21,567	19,318
Machinery and equipment	55,678	56,152
Furniture, fixtures and leasehold improvements	24,897	19,269
	106,425	98,628
Less accumulated depreciation and amortization	52,355	47,156
	$ 54,070	$51,472

(8) Revolving Credit and Term Loan Agreements

In March, 1982, the Company entered into a Revolving Credit and Term Loan Agreement with the First National Bank of Boston; in July, 1982 Blue Chip entered into a substantially similar agreement with the Bank of America, N.T. & S.A. Each of the Agreements provides for loans of up to $50 million during a revolving term period which extends to February 28, 1985. The Agreements provide that any borrowings thereunder which are outstanding on February 28, 1985 will be repayable in sixteen equal quarterly installments, with the first installment due on May 31, 1985. Commitment fees are payable quarterly on the unused portion of the aggregate $100 million commitment during the revolving term period at the per annum rate of ¼ of 1%. Loans under the Agreements during the revolving term period bear interest at not more than the Banks' prime rate, and thereafter at a maximum of ¼ of 1% over the prime rate.

Berkshire's Agreement provides for optional termination by the Bank of its commitment, and repayment of borrowings in twelve quarterly installments if Warren E. Buffett ceases to act as chairman and chief executive officer of the Company or if total borrowings of the Company and its consolidated subsidiaries exceed a formula amount, generally 35% of Capitalization as defined. The Bank of America may terminate its commitment to Blue Chip and require repayment of outstanding borrowings under the Agreement in twelve quarterly installments in the event Blue Chip's debt exceeds 35% of Blue Chip's Capitalization.

In 1982, Blue Chip had no outstanding borrowings under its Agreement. Average daily borrowings in 1982 by Berkshire under its Agreement were $2,475, with respect to which the average per annum interest cost was 10.5%. Berkshire's highest aggregate borrowing in 1982 under the Agreement was $40,000.

(9) Term Debt and Other Borrowings

At the end of the past two years Berkshire's consolidated term debt and other borrowings was as follows:

	Jan. 1, 1983	*Jan. 2, 1982*
Berkshire:		
8% Senior Notes maturing through March 1, 1993 at $1,143 annually	$ 15,428	$16,571
9¼% Senior Notes maturing March 1, 1985 to March 1, 1993 at $777 annually	7,000	7,000
12¾% debentures maturing from August 1, 1991 through August 1, 2005 at $4,004 annually	60,000	60,000
8% debentures due 1985, with 1% additional participating interest contingently payable	6,600	6,600
Other notes and debentures maturing through 1992 in varying annual installments, with interest at rates varying from 7½% to 9%	1,829	2,718
	90,857	92,889
Consolidated Subsidiaries:		
Notes maturing through 2006 in varying installments, with interest at rates varying from 6% to 15%	7,724	4,879
Total consolidated term debt	98,581	97,768
Berkshire — revolving credit agreement borrowings	39,000	—
	$137,581	$97,768

Berkshire's Senior Note Agreements include limiting terms relating to sales of assets, mergers and consolidations, and allow the noteholders to demand prepayment at par within 60 days of notice that, during the lifetime of Warren E. Buffett, his ownership of stock of the Company, together with that of certain family affiliates, has decreased to less than 15% of the Company's outstanding capital stock. Among the covenants of Berkshire's various borrowing agreements, the Senior Note Agreements include the most limiting of provisions restricting retained earnings. Thereunder, retained earnings of approximately $109,407 as of January 1, 1983 were free of restriction, the balance is restricted.

Principal payments on term debt outstanding at January 1, 1983 are required as follows:

1983	$ 1,686
1984	1,629
1985	9,013
1986	2,597
1987	2,483
Thereafter	81,173

(10) Income Taxes

The consolidated statements of earnings reflects charges for income taxes applicable to:

	1982	1981	1980
Operating earnings	$ 2,386	$12,091	$13,943
Realized investment gain — continuing operations	10,250	10,421	4,401
Security losses of bank	—	—	(345)
	$12,636	$22,512	$17,999
These taxes are comprised of:			
Federal	$ 9,476	$19,948	$15,348
State	3,129	2,428	2,489
Foreign	31	136	162
	$12,636	$22,512	$17,999

Income taxes applicable to operating earnings are reconciled in the table which follows to hypothetical amounts computed at the Federal statutory rate.

	1982	1981	1980
Earnings from operations including minority interests, before applicable income taxes and realized investment gain	$42,869	$60,257	$64,805
Hypothetical amounts applicable to above computed at Federal statutory rate (46%)	$19,720	$27,718	$29,810
Decreases, resulting from:			
Tax-exempt interest income	(3,722)	(3,190)	(3,042)
85% dividends received credit	(12,070)	(11,146)	(8,640)
100% exclusion relating to equity in net earnings of:			
Illinois National Bank	—	—	(2,176)
Wesco	(2,948)	(3,275)	(4,050)
Increases, resulting from:			
State income taxes, less Federal income tax benefit	1,570	1,413	1,216
Berkshire provision, at rate applicable to dividends, with respect to its equity in Blue Chip's operating earnings	275	859	777
Net other differences	(439)	(288)	48
Total income taxes applicable to operating earnings	$ 2,386	$12,091	$13,943

For 1982, Berkshire will report a consolidated net operating loss, as defined by the Federal Internal Revenue Code, and will be entitled to recovery from carryback thereof of Federal income taxes paid for preceding years. The above Federal income tax expense applicable to operating earnings represents the net of amounts assessable or recoverable currently, adjusted for changes in prepaid or deferred accounts, as follows:

	1982	1981	1980
Currently assessable	$17,103	$13,482	$11,638
Currently refundable	(8,993)	—	—
Change in prepaid accounts	(5,695)	(972)	1,147
Change in deferred accounts	(29)	(419)	1,158
	$ 2,386	$12,091	$13,943

(10) Income Taxes *(Continued)*

The change in prepaid income taxes relates to timing differences primarily in reporting Blue Chip's stamp redemption expenses. The change in the deferred liability arising from operations relates to the following:

	1982	1981	1980
Undistributed operating income of Blue Chip Stamps	$ 275	$ 808	$ 730
Deferred insurance premium acquisition costs	(943)	(851)	235
Cumulative accreted discount on bonds sold	(653)	(257)	(285)
Currently accreted discount on bonds	213	146	383
Additional discount for financial reporting purposes, of liabilities for periodic payment settlements	1,147	—	—
Other timing differences	(68)	(265)	95
	$ (29)	$ (419)	$ 1,158

Income taxes deemed applicable to realized investment gain are essentially equal to amounts computed at the Federal statutory rate of 28% applicable to long-term capital gains, plus applicable state taxes.

(11) Stockholders' Equity Accounts

Changes in stockholders' equity accounts during the most recent three years were as follows:

	Net Unrealized Appreciation	Retained Earnings	Treasury Stock
Balance at December 29, 1979	$108,913	$238,332	$11,871
Increase during 1980 in unrealized appreciation included in carrying value of marketable equity securities	36,246		
Income taxes deemed applicable to above	(10,149)		
Net earnings 1980		53,122	
Cost of 41,086 shares of the Company's common stock reacquired in 1980 in an exchange transaction whereby the Company divested of its banking subsidiary			28,967
Balance at January 3, 1981	135,010	291,454	40,838
Increase during 1981 in unrealized appreciation included in carrying value of marketable equity securities	85,368		
Income taxes deemed applicable to above	(23,903)		
Net earnings 1981		62,604	
Value of 450 treasury shares reissued in 1982			(180)
Balance at January 2, 1982	196,475	354,058	40,658
Increase during 1982 in unrealized appreciation included in carrying value of marketable equity securities	224,509		
Income taxes deemed applicable to above	(62,863)		
Net earnings 1982		46,374	
Balance at January 1, 1983	$358,121	$400,432	$40,658

At January 1, 1983, 225,988 shares of the Company's issued common stock were held by the Company, and 1,786 shares were held by an insurance subsidiary of the Company.

(12) Dividend Restrictions — Insurance Subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations, to the extent that not more than approximately $96 million could be paid to the Company in 1983 by insurance subsidiaries of the Company, without prior regulatory approvals.

(13) Realized Investment Gain — Continuing Operations

A summary of net realized investment gain — continuing operations — for each of the past three years is presented in the following table.

	1982	*1981*	*1980*
Pre-tax net gain realized by the Company and consolidated subsidiaries	$31,145	$34,739	$15,934
Applicable income taxes	(10,250)	(10,421)	(4,401)
Applicable minority interest	(7,949)	(2,179)	(609)
	12,946	22,139	10,924
Equity in net realized gain (loss) of Wesco Financial Corporation, an unconsolidated subsidiary	1,931	742	(134)
Realized investment gain — continuing operations, net	$14,877	$22,881	$10,790

Realized investment gains in 1982 include the Company's equity of $14,245 in the after-tax gain from disposition by Blue Chip, pursuant to contracts entered into in December, 1982 and settled in early 1983, of its investment in Pinkerton's Inc. and Pinkerton's Holding Corporation.

In February 1982, Wesco's savings and loan subsidiary sustained a loss on sale of GNMA backed real estate mortgage certificates. The Company's equity of approximately $1,078 in such loss has been netted in the figure reflected for equity in 1982 net realized gain of Wesco. Wesco's summarized consolidated financial statements appearing elsewhere herein reflect Mutual's loss on the transaction as an operating item.

The cost of securities sold is usually determined on a first-in, first-out basis; occasionally, when specific identification of securities sold results in lower applicable income tax, identified cost is used.

(14) Earnings from Discontinued Operations

Earnings from discontinued operations reflected in the accompanying statement of earnings for 1980 represent the Company's equity in that period's earnings of the Illinois National Bank and Trust Co. of Rockford. In compliance with requirements of the Federal Bank Holding Company Act, the Company disposed of its interest in the Bank as of December 31, 1980.

(15) Lease Commitments

Berkshire's retailing subsidiary, Associated Retail Stores, Inc. ("Associated") occupies real property which is subject to a 15 year lease commitment to the New York State Industrial Development Agency; the commitment has been capitalized in the accompanying consolidated financial statements. Additionally, Associated, Blue Chip and subsidiaries of Blue Chip have significant commitments outstanding with respect to real estate occupied under agreements classified as operating leases, minimum rentals under which were as follows at January 1, 1983:

Year	Associated	Blue Chip and its Subsidiaries	Total
1983	$1,666	$4,097	$ 5,763
1984	1,358	3,503	4,861
1985	1,115	2,843	3,958
1986	957	2,530	3,487
1987	875	2,258	3,133
Thereafter	5,061	9,597	14,658

Total rental expense, including equipment rentals, charged to consolidated earnings was $12,376 for 1982, $9,797 for 1981, and $10,145 for 1980; such figures include contingent real estate rentals in excess of stated minimums amounting to $3,265 for 1982, $3,071 for 1981, and $2,726 for 1980.

(16) Pension Plans

Employees of Berkshire and its consolidated subsidiaries who meet certain eligibility requirements are covered under either employer-sponsored or union-sponsored pension plans. Total pension expense charged to consolidated earnings was $3,479 for 1982, $3,118 for 1981 and $1,917 for 1980, which includes, as to certain of the plans, amortization of prior service costs over a 30-year period. Berkshire and its subsidiaries generally fund pension costs as accrued.

The latest actuarial evaluations of employer-sponsored defined benefit plans of the Company and its consolidated subsidiaries were performed generally as of December 31, 1980 or 1981. The actuarial present values determined for accumulated benefits, using interest assumptions ranging from 6% to 10%, segregated as between overfunded and underfunded plans, together with assets available for benefits as of that date, are presented in the following table.

	Overfunded plans	Underfunded plans
Actuarial present value of accumulated benefits:		
Vested	$ 6,073	$20,906
Not vested	360	1,294
Total	$ 6,433	$22,200
Assets available for benefits	$12,053	$20,317

(17) Litigation

From October, 1977 until September, 1982, The Buffalo Evening News, Inc., a subsidiary of Blue Chip Stamps, was involved in litigation with a principal competitor. In September, 1982, the litigation was dismissed with prejudice pursuant to a stipulation of the parties. During the same month the competitor ceased publication of its newspaper.

(18) Quarterly Data

A summary of earnings by quarter for the past two years is presented in the following table. This information is unaudited.

1982	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Income items	$106,946	$115,360	$ 99,946	$157,139
Earnings before realized investment gain	7,955	7,472	3,508	12,562
Realized investment gain (loss)	(3,426)	2,500	4,477	11,326
Net earnings	$ 4,529	$ 9,972	$ 7,985	$ 23,888
Per share:				
Earnings before realized investment gain	$ 8.06	$ 7.57	$ 3.56	$ 12.73
Net earnings	4.59	10.11	8.09	24.22
1981				
Income items	$113,388	$115,184	$103,592	$146,532
Earnings before realized investment gain	9,133	10,972	7,801	11,817
Realized investment gain	5,713	12,580	2,407	2,181
Net earnings	$ 14,846	$ 23,552	$ 10,208	$ 13,998
Per share:				
Earnings before realized investment gain	$ 9.26	$ 11.13	$ 7.91	$ 11.98
Net earnings	15.06	23.88	10.35	14.19

Candy business revenues and earnings are significantly higher in the fourth quarter of the year compared to earlier quarters. More than half of See's Candies annual sales are normally recorded in the fourth quarter.

(19) Business Segment Data

The tables below reflect data for each of the three most recent fiscal years, broken down as to business segments.

Revenues

	1982	1981	1980
Insurance	$194,736	$198,032	$216,298
Textiles	21,755	30,389	44,432
Retailing	42,609	44,239	44,374
Candy	123,770	112,794	97,816
Promotional services	18,550	23,842	25,637
Newspaper	63,630	54,669	49,867
Revenues not identified with major segments	14,341	14,731	13,733
	$479,391	$478,696	$492,157

Operating Profit Before Taxes — Continuing Operations

	1982	1981	1980
Insurance	$ 20,062	$ 40,301	$ 37,677
Textiles	(1,545)	(2,669)	(508)
Retailing	914	1,763	2,440
Candy	23,440	20,517	14,247
Promotional services	4,182	3,642	7,699
Newspaper	(1,244)	(1,246)	(2,915)
Pre-tax operating profits not identified with major segments	11,007	12,349	11,512
Corporate expenses	(2,118)	(2,913)	(893)
Interest expense	(11,829)	(11,487)	(9,185)
	$ 42,869	$ 60,257	$ 60,074

Amounts are stated before deduction of minority interest.
Realized investment gains are not reflected.

Capital Expenditure

	1982	1981	1980
Insurance	$ 342	$ 645	$ 653
Textiles	720	859	1,019
Retailing	2,588	398	199
Candy	2,711	3,528	5,116
Promotional services	283	569	338
Newspaper	2,931	335	346
Other	12	3	45
	$ 9,587	$ 6,337	$ 7,716

(19) Business Segment Data *(Continued)*

Depreciation and Amortization of Tangible Assets

	1982	1981	1980
Insurance	$ 651	$ 644	$ 535
Textiles	610	556	500
Retailing	248	203	164
Candy	2,087	1,804	1,486
Promotional services	274	231	174
Newspaper	2,354	2,263	2,230
Other	52	52	55
	$ 6,276	$ 5,753	$ 5,144

Identifiable Assets At Year-End

	1982	1981	1980
Identified with segments:			
Insurance	$1,059,670	$ 825,635	$ 693,859
Textiles	12,878	15,521	19,388
Retailing	16,504	12,830	13,295
Candy	41,559	40,611	40,996
Promotional services	136,268	105,409	94,761
Newspaper	38,633	33,852	33,215
Other	2,597	2,270	2,215
	1,308,109	1,036,128	897,729
Not identified with segments:			
Investment in Wesco	75,858	68,874	63,040
Investment in unconsolidated subsidiaries	307	896	1,187
Corporate cash and marketable securities of the parent and non-insurance subsidiaries	101,350	52,013	48,625
	$1,485,624	$1,157,911	$1,010,581

Revenues of the Insurance Segment

	1982	1981	1980
Premiums written	$149,091	$148,000	$184,864
Premiums earned:			
Specialized auto and general liability	69,026	73,177	88,404
Workers' Compensation*	15,951	18,193	19,890
Reinsurance	30,416	29,446	33,804
Home State multiple lines	37,552	38,197	43,089
Total premiums earned	152,945	159,013	185,187
Investment income	41,791	39,019	31,111
	$194,736	$198,032	$216,298

*Workers' Compensation coverage written by the Home State Companies, as part of their multiple line business, is not disaggregated from their total earned premiums.

(19) Business Segment Data *(Continued)*

Insurance Segment Operating Profit Before Taxes

	1982	1981	1980
Underwriting gain (loss):			
Specialized auto and general liability	$ (12,647)	$ 3,020	$ 7,395
Workers' Compensation	2,658	2,822	4,870
Reinsurance	(7,620)	(3,720)	(233)
Home State multiple lines	(3,949)	(644)	(5,294)
Total underwriting gain (loss)	(21,558)	1,478	6,738
Net investment income	41,620	38,823	30,939
	$ 20,062	$ 40,301	$ 37,677

(20) Possible Subsequent Merger

On December 15, 1982, Berkshire and Blue Chip jointly announced that they were considering a statutory merger of the two companies to occur some time in 1983.

Berkshire Hathaway Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Results of Operations

This discussion should be read in conjunction with the Selected Financial Data and with the Consolidated Financial Statements and notes thereto appearing elsewhere herein. Operating profit before taxes is shown in note 19 to the financial statements. The impact of income taxes is not proportional to the pre-tax income of the Company's business segments because of the tax-free nature of municipal bond interest income and the virtually tax-free nature of dividend income earned by certain segments. Also, the minority interest in Blue Chip's segments is significant. Therefore, presented below is a summary of net earnings — after giving effect to income taxes and after deduction of applicable minority interest — for the past three years.

	Berkshire's Net Earnings After Taxes (000's omitted)		
	1982	*1981*	*1980*
Insurance:			
Underwriting gain (loss)	$(11,345)	$ 798	$ 3,637
Net investment income	35,270	32,401	25,607
Sub-total — Insurance	23,925	33,199	29,244
Equity in operating earnings of:			
Blue Chip Stamps and its wholly-owned subsidiaries[1]	9,606	7,884	6,456
Wesco Financial Corporation and its subsidiaries[2]	3,635	3,950	4,885
Textiles, retailing and other	565	665	2,048
	37,731	45,698	42,633
Interest expense	(6,234)	(5,975)	(4,149)
Earnings from continuing operations before realized investment gain	31,497	39,723	38,484
Equity in earnings (before securities losses) of Illinois National Bank	—	—	4,731
Earnings before realized investment gain	31,497	39,723	43,215
Realized investment gain, net[3]	14,877	22,881	9,907
Net earnings	$ 46,374	$62,604	$53,122

[1] "Operating earnings" of Blue Chip, for purposes of this table, includes that of Blue Chip and its wholly owned subsidiaries (thus excluding Wesco which is an 80% owned subsidiary of Blue Chip). Such "operating earnings" has been computed before deduction of interest expense. Realized gain or loss from sale of securities is also excluded.

[2] "Operating earnings" of Wesco for purposes of this table, includes that of Wesco and its subsidiaries, all of which are wholly owned by Wesco. Such "operating earnings": (a) does not take into account any gain or loss from sale of securities, (b) does not take into account the loss sustained by Mutual Savings and Loan Association in 1982 from sale of GNMA backed real estate mortgages (this loss is reflected in realized investment gain — see note 13 to the consolidated financial statements), and (c) includes Mutual's gain in 1980 from Mutual's sale of its fifteen branches, Berkshire's share of which gain — on an after-tax basis — was $1,293,000.

[3] "Realized investment gain, net" includes Berkshire's proportionate share of any significant net securities gains or losses of Blue Chip, Wesco and the Illinois National Bank.

Income taxes have been assigned in the above tabulation to the income or deduction items which created the tax or generated the benefit; amounts so assigned may differ from amounts allocated to the various legal entities in accordance with tax sharing agreements effective between the entities.

Insurance

A summary of the combined underwriting results of the several property/casualty insurance company members of the Insurance Group is presented below, on the basis of generally accepted accounting principles, for the past three years:

	(000's omitted)					
	1982		*1981*		*1980*	
	Amount	%	Amount	%	Amount	%
Premiums written	$149,091	XX	$148,000	XX	$184,864	XX
Premiums earned	152,945	100.0	159,013	100.0	185,187	100.0
Losses and loss expenses	121,996	79.8	103,417	65.1	118,230	63.9
Underwriting expenses	52,507	34.3	54,118	34.0	60,219	32.5
	174,503	114.1	157,535	99.1	178,449	96.4
Underwriting gain (loss) — pre-tax	$ (21,558)	(14.1)	$ 1,478	0.9	$ 6,738	3.6

Information with respect to revenues and underwriting results of the Insurance Group is included in the segment data in note 19 to Berkshire's Consolidated Financial Statements. Certain data included in the note, which details underwriting results by sub-segments of the Insurance Group is, for convenience, reproduced below:

	1982	*1981*	*1980*
Underwriting gain (loss):			
Specialized auto and general liability	$(12,647)	$ 3,020	$ 7,395
Workers' Compensation	2,658	2,822	4,870
Reinsurance	(7,620)	(3,720)	(233)
Home State multiple lines	(3,949)	(644)	(5,294)
Total underwriting gain (loss)	$(21,558)	$ 1,478	$ 6,738

Premium Volume

As shown in the second preceding table above, premiums written by the Insurance Group in 1982 were in the aggregate approximately the same as in 1981; the 1981 volume, however, represented a significant decline from the preceding year. The most significant decline in premiums earned — from 1980 to 1981 — occurred in the specialized auto and general liability business, conducted by National Indemnity, National Fire and Marine and Home and Auto. The decline was approximately 21%. We attribute that decrease to fewer offerings of such specialty coverages to our companies, in an environment of intense price competition, at prices acceptable to them. Premiums earned in the specialty lines declined somewhat further in 1982 — about 3% from the 1981 level.

Insurance *(Continued)*

Underwriting Results

Price competition was fairly intense in 1981, but the specialty lines nevertheless remained profitable to our companies in such prior year, albeit at the lower level of business. Price competition intensified further in 1982, which among other influences, effectively precluded upward rate adjustments that might have been required solely to offset existing inflationary pressures. We believe the competitive pressures also tended to increase the average risk in the non-standard sector, since competing underwriters of standard business tended to accept these risks at standard or deviated rates which would previously have been unacceptable to them at such rates. And, we believe our companies may have accepted some new business at less than attractive rates to replace some of the non-renewed business that went to competitors at rates unattractive to us. Thus, significant underwriting losses were incurred in 1982 by members of the Insurance Group writing business in this specialized sub-segment of the business. Losses in this business also increased in 1982 as a result of changes in Home and Auto's underwriting approach to its non-standard auto business. The changes were made in an attempt to deal with the types of competitive pressures outlined above, but they can clearly be categorized in retrospect as ill-conceived and poorly executed. Home and Auto's 1982 underwriting loss on a GAAP basis — not all which loss was in its non-standard auto business; significant losses were also incurred in Home and Auto's general liability business — increased about $4 million over the comparable 1981 figure. Home and Auto's 1982 loss reflects an amortization charge of approximately $845,000 for premium acquisition costs which were deferred at the end of 1981; there was no deferral of such Home and Auto costs at the end of 1982.

Losses in the reinsurance sub-segment of the Insurance Group's business increased in 1982. Storms that occurred in the southwest part of the country in the first half of the year created a significant part of the 1982 losses; adverse development in 1982 with respect to loss occurrences in prior years was also significant. This business involves claims for which the settlement periods may extend over a number of years; if not accurately projected, financial and social inflation during this extended time period can significantly increase ultimate loss settlements over amounts estimated at earlier dates of loss occurrences.

The increased underwriting loss for the Home State multiple line business in 1982 reflects, in addition to the negative effects of the intense price competition in the industry, the relatively significant loss realized by the operations of a Minnesota subsidiary which led in part to discontinuance in 1982 of that underwriting operation. Costs which are disproportionate to the premium volume of that company, but which are associated with the discontinuance, are also reflected.

Underwriting losses reflected above, by sub-segment, are pre-tax results, while the aggregate net after-tax results are shown in the table at the beginning of this discussion. In that table and in the Consolidated Statements of Earnings, full tax-benefit of the pre-tax losses in 1982 has been recognized, since income taxes paid for earlier years are refundable to Berkshire and its subsidiaries through the loss-carryback provisions of the Internal Revenue Code.

Net Investment Income

Investment income of the Insurance Group increased somewhat in 1982 over 1981 and in the prior year over 1980; in both 1982 and 1981 the increase over the preceding year reflects both an increased level of investment and some increased income yield from the investments portfolio.

Blue Chip and its Wholly-Owned Subsidiaries

Amounts contributed to Berkshire's earnings in each of the past three years by each of Blue Chip's three constituent businesses are shown in the table below. The figures are before deduction of interest expense, do not reflect any realized securities gains, and are net of applicable or deemed applicable income taxes.

	(000s omitted)		
	1982	*1981*	*1980*
See's Candies	$7,331	$6,042	$4,212
Promotional services	2,472	2,134	3,060
Buffalo Evening News	(197)	(292)	(816)
	$9,606	$7,884	$6,456

The above figures include aggregate interest and dividend income, net of income taxes, amounting to $3,751 — 1982, $3,206 — 1981, and $3,058 — 1980, principally credited to the promotional service business of Blue Chip.

See's profits have increased in each of the past two years, principally as a result of increases in selling prices which exceeded increases in related costs. Unit sales volume (pounds of candy sold) has remained approximately unchanged in the past three years. See's dollar revenues increased about 10% in 1982 following a 15% increase in 1981.

Trading stamp issuances declined in 1982 from 1981 due to the loss in April, 1982 of the business of a Southern California supermarket chain which had been accounting for about half of the trading stamp volume. While Blue Chip's profit margin declined with loss of volume, the reduction was mostly offset by reduced costs of the operation, so that profit results for 1982 did not deteriorate from 1981. The 1982 year-end revision to the estimate of Blue Chip's liability for unredeemed trading stamps (see Note 1(f) to the Consolidated Financial Statements) resulted in a credit to 1982 earnings, Berkshire's share of which, after taxes, amounted to $202,000. A similar revision to such estimates two years earlier resulted in a credit to 1980 earnings, Berkshire's share of which, after taxes, amounted to $970,000. Excluding credits from those revisions, Berkshire's equity in Blue Chip's promotional service net income were fairly comparable in each of the past three years.

Operations of the Buffalo Evening News have been adversely affected since 1977 as a result of an antitrust lawsuit filed against it in that year by its principal competitor, the Buffalo Courier-Express, and as a result of intense competition between the two Buffalo newspapers. The Courier-Express ceased operations on September 19, 1982, whereupon the News instituted a daily morning edition. On September 24, 1982 the court dismissed the lawsuit. Costs associated with the new morning edition were relatively high in 1982, preventing any significant increase in 1982 net income, although advertising and circulation revenues increased. The News is expected to be profitable in 1983.

Wesco Financial Corporation

The Company's equity in "operating earnings" of Wesco, as reflected in the table at the beginning of this discussion and as that term is defined in a note following such table, declined somewhat in 1982 from 1981. The decline reflects primarily a decrease in 1982 in earnings of Wesco's steel service business subsidiary, a result for the most part of severe recessionary conditions in the steel industry.

Textiles, Retailing and Other

The nature of this category of after-tax net income for the past three years is shown in the following table:

	(000's omitted)		
	1982	*1981*	*1980*
Textile operations gain (loss)	$ (862)	$(1,493)	$ 202
Retailing operations gain	446	759	1,169
Investment and other income items	2,139	2,972	1,159
Corporate administrative costs	(1,158)	(1,573)	(482)
	$ 565	$ 665	$2,048

Operating results of our textile business were substantially the same for 1982 as for 1981 before taking into account a credit reflected in 1982 amounting to approximately $500,000 — after tax-effect — representing release of a portion of the LIFO inventory reserve. Competitive pressures in the textile industry have been quite severe for each of the past two years. Curtailments occurred in our textile operation in each of those years, which followed the closing in late 1980 of the Manchester, New Hampshire textile operations of a subsidiary acquired in 1975. As a cumulative result of the curtailments, portions of the New Bedford physical plant are presently not used in the Company's textile business, and in early 1983 we reached tentative agreement to lease a significant part of the plant to an unrelated party. This will tend to reduce the idle plant costs chargeable to the textile operation; such cost reduction plus benefits from restructuring of the remaining textile operations are expected to result in improved 1983 results from these operations.

Retailing operations have generated lower profits for each of the past two years as the economic recession deepened. The 1982 results were penalized somewhat — about $100,000 after taxes — from the maintenance of duplicate facilities during the last half of the year. The second facility was a newly acquired, slightly larger warehouse and administrative headquarters near the former warehouse and headquarters in Long Island City, to which the operations moved in December, 1982. The new facility was acquired for the operation with IDA bond financing, and has some potential for reducing merchandise handling costs, though occupancy costs will increase.

Amounts donated pursuant to the Company's shareholder designated contributions program totalled approximately $900,000 in 1982 and $1.8 million in 1981 when the program was initiated. The difference in gifts made pursuant to the program, after giving tax-effect thereto, largely explains differences in corporate administrative costs, as shown above net of tax-effect, for the past three years.

Liquidity and Capital Resources

Berkshire's consolidated balance sheet at January 1, 1983 reflects continuing significant liquidity. In management's opinion, the fiduciary nature of obligations to policyholders of Berkshire's insurance subsidiaries and to savers of Blue Chip's trading stamps requires maintenance of high liquidity; management expects to meet this requirement with a significant margin of safety. Maintenance of liquidity considerably above industry norms permits Berkshire's insurance subsidiaries to perform their underwriting function without a view towards cash flow.

Berkshire's businesses are not capital-intensive; i.e., they do not require significant investment or reinvestment in property, plant and equipment. Generally, management tends to avoid deployment of assets in businesses of such a nature; on the contrary, Berkshire desires to own companies engaged in businesses that produce positive cash flow; it retains funds and obtains credit with a view towards acquiring more such operations or expanding existing operations into areas where above-average capital strength creates competitive advantage to them.

Berkshire's total equity capital has more than doubled over the past three years, from approximately $345 million at the end of 1979 to $727 million at the end of 1982, the net increase amounting to $382 million. Realized and unrealized securities gains during the three years represent approximately $297 million of the increase. Debt is used by Berkshire in relatively modest amounts, and management does not expect the Company to rely upon a high degree of leverage in its financing at any time in the foreseeable future. Management is averse to reliance on any significant amount of short-term debt. In August, 1980, Berkshire issued, in a public offering, $60 million 12¾% debentures, the principal amount of which is repayable through operation of a sinking fund in the years 1991 through 2005. No significant debt financing occurred in 1981. In March, 1982, the Company obtained a $50 million revolving loan commitment from the First National Bank of Boston. Berkshire did not undertake the 1980 debenture financing nor obtain the 1982 revolving loan commitment because of any specific needs, but rather to have the funds available when attractive opportunities arise to use the funds profitably. Management believes that such opportunities may present themselves when credit is extremely expensive or even unavailable.

Inflation

Berkshire's management does not believe that, to date, inflation has seriously affected Berkshire's businesses. Generally, Berkshire receives current revenues in any year which have substantially the same purchasing power as the dollars which represent its current costs. Very few of Berkshire's costs are stated in dollars which are other than current dollars.

Very large changes in the rate of inflation that were not anticipated could seriously impact Berkshire's insurance business, particularly since premium rates are established well in advance of incurrence of the related costs. Management believes that to date, however, underwriting results have not been impacted materially by inflation or changes in inflation rates.

Berkshire Hathaway Inc.

BUSINESS ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES

January 1, 1983

(a) Underwriting of property and casualty insurance. The insurance business is conducted through several wholly-owned subsidiaries referred to throughout this report as the "Insurance Group". National Indemnity Company and National Fire and Marine Insurance Company, companion carriers sharing a home office in Omaha, Nebraska, and specializing in non-standard automobile and general liability insurance, are principal insurance subsidiaries of the Company. A reinsurance operation is conducted through National Indemnity and through Columbia Insurance Company, a Nebraska domiciled insurer. "Home state" multiple line property and casualty insurance operations are conducted through subsidiaries formed for that purpose in Colorado, Kansas, Nebraska and Texas. Underwriting operations of a similar company in Minnesota were substantially discontinued in 1982. Three subsidiaries of Berkshire specialize in underwriting of workers' compensation insurance: Cypress Insurance Company, Pasadena, California, Redwood Fire and Casualty Insurance Company, Los Angeles, California and Southern Casualty Insurance Company, Alexandria, Louisiana. Home and Automobile Insurance Company, based in Chicago, is a subsidiary of the Company which underwrites non-standard automobile, and general liability insurance.

The insurance business generates significant amounts of investment income, both from capital funds committed to the operations and from policyholders' funds derived from unearned premiums and loss reserves.

(b) Manufacturing and selling of woven textile products. The Company continues to own and operate a textile weaving mill in New Bedford, Massachusetts, operation of which by the Company or its predecessors dates back to 1889, and maintains a textile products sales office in New York City; a Canadian subsidiary maintains a textile products sales office and warehouse in Toronto, Canada. Permanent curtailments were made to the New Bedford operations during 1982, reducing the amount of Company resources committed to the textile business.

Products of the textile business include curtain and bedspread materials, apparel fabrics and industrial fabrics. Sales are through employees to home fabric jobbers and converters, menswear converters, industrial fabrics and apparel fabrics converters, custom and ready-made curtain manufacturers, bedspread manufacturers, retail chain and department stores and mail order houses.

(c) Retailing of popularly priced women's and children's apparel. The Company's retailing business is conducted through Associated Retail Stores, Inc., ("Associated"). Associated has been a wholly-owned subsidiary of the Company, or a now-merged predecessor of the Company, since 1966. Associated's headquarters and central warehouse are in Long Island City, New York; it had 85 retail outlets at January 1, 1983, ranging in size from 2,000 square feet to 60,000 square feet of selling and non-selling floor area, located in eleven states, principally in the midwest (Chicago) and in northeastern states.

(d) Blue Chip Stamps. Blue Chip is an approximately 60% owned subsidiary of the Company. Blue Chip is engaged directly in the promotional services business, and wholly-owned subsidiaries of Blue Chip are engaged in the candy business — See's Candy Shops, Incorporated, and the newspaper business — Buffalo Evening News, Inc.

(i) The promotional services business. Blue Chip offers two principal types of promotional services: (1) those used by business organizations to attract or retain customers (mainly a conventional trading stamp program), and (2) those used by businesses or other entities for internal purposes (motivation programs).

Blue Chip's trading stamp service, started in 1956, continues to be the pre-eminent trading stamp operation in the California-Nevada area. Revenues of the trading stamp service component declined dramatically in the early 1970's after peaking at $124 million in the fiscal year ended February 28, 1970, but have been relatively stable over the past several years. Such revenues were $9.2 million in 1982 compared to $15.6 million in 1981 and to $16.7 million in 1980. One Southern California supermarket chain which accounted for about 51% of the 1981 trading stamp service revenues discontinued giving trading stamps effective April 1, 1982. Blue Chip intends to stay in the trading stamp business, its management believes trading stamps are an effective point-of-purchase sales promotion device for certain retailers. Blue Chip currently has 26 redemption outlets, compared to 37 one year ago and a peak number of 90.

Blue Chip Motivation, a separate division, tailors programs for businesses using awards of merchandise and travel in order to stimulate sales or productivity, promote attendance or safety, or perform other employee motivational functions. The division concentrates its sales efforts generally in Western United States. Motivation programs vary greatly as to size and duration with the results that revenues of this division fluctuate from year to year.

(ii) See's Candy Shops, Incorporated. See's produces boxed chocolates and other confectionary products of high quality in two large kitchen facilities in California. See's is believed to be one of the largest candy manufacturers distributing through its own chain of retail shops; it now has 202 in twelve western and midwestern states including Hawaii.

A significant degree of seasonality exists in this business; about 50% of each year's candy sales is generated during the Thanksgiving-Christmas season, when high shop volume is augmented by quantity sales to organizations at reduced prices.

(iii) Buffalo Evening News, Inc. The assets of this entity, subject to certain liabilities, were purchased by Blue Chip in April 1977. It then published an evening and Saturday edition of its newspaper in Buffalo. In October, 1977 it introduced a Sunday edition, whereupon it became a defendant in antitrust litigation brought by its principal competitor, the Buffalo Courier-Express, Inc. alleging that the News was trying to monopolize the newspaper business in Buffalo. The Courier-Express ceased publication on September 19, 1982, whereupon the News began publishing a morning edition. On September 24, 1982 the litigation with the Courier-Express was dismissed with prejudice pursuant to a stipulation of the parties. The newspaper is now the only daily newspaper serving the entire Buffalo metropolitan area. In February, 1983, the News ranked 21st among the nations daily newspapers in daily circulation.

In addition to the above businesses, the Company has an approximately 48% economic interest in **Wesco Financial Corporation,** through Blue Chip's ownership of approximately 80% of the outstanding stock of Wesco. In the Company's Consolidated Financial Statements included in this report, the equity method of accounting is reflected for Blue Chip's investment in Wesco. Wesco invests in marketable securities and real estate, and owns all of the outstanding stock of Mutual Savings and Loan Association, Pasadena, California. Wesco also owns 100% of Precision Steel Warehouse, Inc., engaged in the steel products service business.

Berkshire Hathaway Inc.

SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES

(dollars in thousands, except per share data)

This information is unaudited.

The Financial Accounting Standards Board ("FASB") requires disclosure by certain companies of supplementary data intended to reflect the effects of inflation on portions of the financial statements.

The method of measuring the impact from inflation is in the development stage and conceivably subject to future changes. Therefore, evaluation of the data presented should be made with caution and only with reference to other financial data.

Selected Financial Data As Reported And As Adjusted For General Inflation

This table presents certain prescribed data as reported and then as adjusted to average 1983 constant dollars. The latter is determined by the Consumer Price Index.

	Fiscal Year Ended Saturday nearest December 31,				
	1982	*1981*	*1980*	*1979*	*1978*
Total revenues:					
As reported	$479,391	$478,696	$492,157	$469,125	$453,359
As adjusted	479,391	508,230	576,510	623,846	670,758
Income from continuing operations before realized investment gain:					
Total as reported	$ 31,497	$ 39,723	$ 38,484	$ 30,961	$ 25,742
Total as adjusted	31,497	42,174	45,080	41,172	38,086
Per share as reported	$ 31.93	$ 40.27	$ 37.47	$ 30.14	$ 25.02
Per share as adjusted	31.93	42.75	43.89	40.08	37.02
Stockholders equity:					
As reported	$727,483	$519,463	$395,214	$344,962	$254,166
As adjusted	727,483	551,512	462,951	458,733	376,046
Market price per common share at year end:					
Historical amount	$ 775.00	$ 560.00	$ 425.00	$ 320.00	$ 158.00
As adjusted	775.00	594.55	497.84	425.54	233.77
Average consumer price index (1967 = 100)	289.1	272.3	246.8	217.4	195.4

Gain In Purchasing Power From Holding Net Monetary Items

In general, assets or liabilities which are fixed in terms of the amount of cash held, receivable or payable are "monetary items". At the end of each of the last six years, Berkshire held, on a consolidated basis, net monetary liabilities, i.e., consolidated monetary items which were liabilities exceeded consolidated monetary items which were assets. In an inflationary period, a gain in purchasing power results from holding net monetary liabilities, since this calculation presumes that the net liabilities can be redeemed with dollars of declining value. The calculated purchasing power gain resulting from this calculation, as to Berkshire and its consolidated subsidiaries for each of the past five years — stated in average 1983 dollars — is as follows:

1982	$ 5,355
1981	10,660
1980	12,795
1979	9,621
1978	5,831

Additional FASB Requirements

Another FASB requirement is for restating at "current cost" inventories, assets used in production and depreciation thereon, and reporting the net effect on reported net income of these restatements. Since these items are not material to Berkshire's operating income or financial position, this information has been omitted.

Berkshire Hathaway Inc.

PARENT COMPANY ONLY — SUMMARIZED FINANCIAL STATEMENTS

(dollars in thousands)

These summarized financial statements should be read in conjunction with the Consolidated Financial Statements of Berkshire Hathaway Inc. and consolidated subsidiaries and the notes thereto, presented elsewhere herein.

Balance Sheets

Assets	*Jan. 1, 1983*	*Jan. 2, 1982*
Investment in wholly-owned subsidiaries:		
Insurance Group (including unrealized appreciation of marketable equity securities of $497,391 at Jan. 1, 1983 and $272,882 at Jan. 2, 1982, net of deemed applicable income taxes of $139,270 at Jan. 1, 1983 and $76,407 at Jan. 2, 1982)	$652,641	$464,247
Other wholly-owned subsidiaries	10,918	13,053
Investment in Blue Chip Stamps	130,053	103,827
Cash and invested cash	280	2,558
Investment in marketable equity securities, at cost (Market: Jan. 1, 1983 — $68,893; Jan. 2, 1982 — 27,934)	59,570	25,471
Accounts receivable and inventories of parent company's textile business	8,346	9,917
Other assets	6,466	4,579
	$868,274	$623,652
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$ 6,581	$ 6,044
Term debt and other borrowings	129,858	92,889
Current and deferred income taxes	4,352	5,257
	140,791	104,190
Stockholders' equity (See Consolidated Balance Sheets)	727,483	519,462
	$868,274	$623,652

Statements of Earnings

Income:	*1982*	*1981*	*1980*
From subsidiaries:			
Interest	$ 440	$ 474	$ 695
Dividends — cash	12,139	539	5,146
Dividends — property*	—	33,325	21,955
Undistributed earnings	44,926	41,290	32,071
	57,505	75,628	59,867
Interest and dividends — other investments	2,120	2,677	1,083
Gross profit (loss) from textile products sales	882	(253)	3,157
Other income (loss)	1,176	565	(807)
	61,683	78,617	63,300
Costs and expenses:			
Administrative and selling expenses of textile business	2,486	2,689	3,194
Corporate administration**	2,005	2,579	906
Interest expense	10,818	10,745	6,078
	15,309	16,013	10,178
Net Earnings	$46,374	$62,604	$53,122

*Dividends received in property were in the form of shares of Blue Chip Stamps stock.

**Corporate administration costs in 1981 and 1982 reflect contributions pursuant to shareholder designated contributions program.

Wesco Financial Corporation

SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

The summarized consolidated financial statements presented below for Wesco reflect consolidation of the accounts of Wesco with its subsidiaries other than Mutual Savings and Loan Association. The equity method of accounting is reflected for Wesco's investment in, and operations of, Mutual Savings, which is wholly-owned by Wesco.

Summarized Consolidated Balance Sheets

	December 31,	
	1982	*1981*
Assets		
Cash and temporary cash investments	$ 22,369	$ 6,321
Marketable equity securities at cost (market value: 1982 — $70,613; 1981 — $78,034)	58,115	63,583
Receivables and inventories of steel service business	9,066	11,788
Investment in Mutual Savings	52,359	46,165
Property, plant and equipment, net	8,950	9,411
Other assets	1,260	1,525
	$152,119	$138,793
Liabilities and Stockholders' Equity		
Notes payable	$ 32,366	$ 32,424
Other liabilities, including income taxes	2,351	3,192
Total liabilities	34,717	35,616
Stockholders' equity	117,402	103,177
	$152,119	$138,793

Summarized Consolidated Statements of Earnings

	1982	*1981*	*1980*
Income items:			
Net sales	$37,293	$46,521	$40,948
Interest and dividends from investments	5,587	4,846	3,448
Equity in earnings of Mutual Savings	910	3,457	6,243
Other	1,649	2,210	689
	45,439	57,034	51,328
Costs and expense items:			
Cost of sales	31,427	37,419	32,607
Selling, general and administrative expenses	5,912	7,272	6,102
Interest expense	3,167	3,170	3,045
Income taxes	138	1,063	469
	40,644	48,924	42,223
Earnings before realized investment gains	4,795	8,110	9,105
Realized investment gain, net	6,706	1,669	940
Net earnings	$11,501	$ 9,779	$10,045

Wesco Financial Corporation is an approximately 80% owned subsidiary of Blue Chip Stamps; Blue Chip Stamps is approximately 60% owned by Berkshire. Berkshire's economic interest in Wesco, therefore is about 48%.

The 1982 Annual Report of Wesco Financial Corporation included the following letter from Louis R. Vincenti, Chairman of the Board and President of Wesco.

TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net income of Wesco Financial Corporation and its subsidiaries for 1982 amounted to $11,502,000 ($1.62 per share) compared to $9,779,000 ($1.37 per share) in 1981. The record earnings achieved in 1982 are substantially due to the gains realized on investment transactions. Sources of net income are as follows:

	1982	1981
Wesco Financial Corporation (Parent Company)	$ 3,559,000	$2,705,000
Mutual Savings and Loan Association	910,000	3,458,000
Precision Steel Warehouse Inc.	327,000	1,947,000
Realized securities gains, net of tax	6,706,000	1,669,000
	$11,502,000	$9,779,000

The continuance of positive earnings by Mutual Savings is in contrast to the operating losses being reported by most other savings and loan associations and holding companies. The substantial decrease in the net income of Mutual Savings from $3,458,000 in 1981 to $910,000 in 1982 is accounted for by the sale, in 1982, of a majority of its portfolio of GNMA pass-through certificates at a loss, net of related taxes, of approximately $2,425,000. Achievement of these results at a time when the savings and loan industry is in turmoil is, in a large part, attributable to the disposition in 1980 of the branch offices of Mutual Savings and to its substantial stockholder's equity of $52,359,000.

In January 1983, Wes-Fin Service Corp. (a wholly-owned subsidiary of Mutual Savings), which had been inactive, received regulatory approval to purchase marketable securities, including common stocks, up to a maximum of 7½% of Mutual Savings' total assets at the time of purchase. This investment power will provide us with additional flexibility in managing Mutual's funds.

Precision Steel's income decreased in 1982 as a result of severe recessionary conditions in the steel industry and the elimination of the precision measuring tool line closed down in 1982 at a loss, net of related taxes, of approximately $650,000. Operations remain profitable, and we anticipate improvement in earnings for the 1983 year.

The poor performance of the savings and loan industry in 1982 and 1981 is in a large part attributable to the high and volatile interest rates in effect during those years. A decline in interest rates commenced in the fall of 1982. The outlook for changes in interest rates is impossible to predict. We expect to adapt successfully to any change.

During 1982, as in 1981, Mutual Savings curtailed its lending activity and made very few loans due to the high cost of savings accounts and uncertainties as to the future direction of loan interest rates. Mutual Savings expects to be inactive in real estate lending in 1983.

Savings accounts at Mutual Savings totaled $152,489,000 at December 31, 1982 compared with $149,168,000 at 1981 year end. Savings accounts can be substantially increased by competing for those deposits which are not subject to rate control.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission. It provides much detailed information on the operations of Wesco and its subsidiaries. Of particular interest is the table on page 8 showing the rate spread between the combined yields on loans and investments and the combined cost of savings and borrowings.

On January 26, 1983, Wesco increased its regular quarterly cash dividend from $.12½ per share to $.13½ per share, payable March 15, 1983 to stockholders of record as of the close of business on February 21, 1983.



Louis R. Vincenti
Chairman of the Board and President

The 1982 Annual Report of Blue Chip Stamps included the following letter to Blue Chip stockholders from the Chairman and the President of that Company.

To Our Shareholders:

Consolidated operating income (i.e., before all net gains from sales of securities, mortgages and important fixed assets) for the calendar year 1982 increased to $22,241,000 ($4.30 per share) from $20,895,000 ($4.03 per share) in the previous year.

Consolidated net income (i.e., after net gains from sale of securities, mortgages and important fixed assets) increased to $45,342,000 ($8.76 per share) from $27,626,000 ($5.33 per share) in the previous year.

We have four major subsidiaries, See's Candy Shops, Incorporated (100%-owned), Mutual Savings (80%-owned), Precision Steel (80%-owned), and Buffalo Evening News, Inc. (100%-owned), in addition to the basic business (primarily trading stamps) operated by the parent company. Our consolidated income for our two reporting years just ended breaks down as follows (in 000s except for per-share amounts):

	Blue Chip's equity in						
	Net operating income (loss) of						
Year ended about	See's(1)	Mutual Savings(2)	Steel Business	Buffalo Evening News(3)	All other net operating income(4)	Net gains on sales of securities, mortgages and important fixed assets(5)	Blue Chip consolidated net income
December 31, 1982...	$12,217	$3,296	$ 276	$(598)	$7,050	$23,101	$45,342
Per Blue Chip share.....	2.36	.64	.05	(.11)	1.36	4.46	8.76
December 31, 1981...	10,647	3,393	1,560	(531)	5,826	6,731	27,626
Per Blue Chip share.....	2.06	.65	.30	(.10)	1.12	1.30	5.33

(1) After reducing income by amortization of intangibles arising from purchase of See's at a large premium over its book value.

(2) After increasing income by amortization of the discount from Mutual Savings' book value at which the interest was acquired and eliminating gains and losses from sale by Mutual Savings of securities, mortgages and important fixed assets.

(3) After reducing income by amortization of relatively minor intangibles arising at acquisition of the newspaper.

(4) After deduction of interest and other corporate expenses. In each year there was an operating loss from promotional services activities before residual consolidated net income was credited with (i) dividends and interest resulting primarily from investment of the funds available through "float" caused by trading stamps issued but not yet redeemed, plus (ii) income tax benefit caused by 85% exclusion of dividends in computing federal income taxes, plus (iii) Blue Chip's share of dividends, interest and rent from securities and real estate held by the Wesco Financial Corporation group outside its savings and loan and steel service activities, plus (iv) in 1982 a net adjustment of Blue Chip's stamp liability account in the amount of $339 or $.07 per Blue Chip share, net of taxes, as explained below under "Promotional Services Business and Miscellaneous Sources of Operating Income."

(5) The 1982 figures comprise $(1,943) or $(.38) per Blue Chip share attributable to Mutual Savings' sale of mortgage-backed securities at a loss, as explained below under "Mutual Savings and Loan Association," and $25,044 or $4.84 per Blue Chip share of net securities gains realized by the various entities net of taxes and minority interest. The 1981 figures relate solely to such net securities gains.

The foregoing breakdown (of the same aggregate earnings) differs somewhat from that used in our audited financial statements.

We have taken the pains to prepare our unconventional breakdown of earnings and to furnish it in this letter because we believe it better explains what is really happening than does our accompanying consolidated income statement in conventional form. Generally, we have tried to improve our annual letter to shareholders each year so as better to disclose the things we would want to be told if the roles were reversed and we were passive investors. However, we have made no effort to provide fresh or novel descriptions. Repetition seems appropriate to us where facts remain both true and analytically important over many years and where certain ideas are part of our fixed business catechism. Accordingly, where previously used words, sentences or paragraphs appear adequate we simply repeat them, inserting up-to-date numbers. We see no more advantage in avoiding repetition in basic information documents like letters to shareholders than, say, in successive editions of a service manual for a slowly-changing engine.

We have no illusion that our type of repetitive annual report, restricted to letters and figures in black and white, represents an optimum. We recognize that the invention of graphs and color pictures improved communication, yet we continue in our own way because it seems adequate in our special case, is cheaper, and is less associated with financial public relations practices we prefer not to emulate.

SEE'S CANDY SHOPS, INCORPORATED

The earnings of our 100%-owned subsidiary, See's Candy Shops, Incorporated, increased 13.8% last year, a respectable performance considering the general state of retailing in the 1981-1982 recession. We have now owned See's for exactly 11 years. Comparative figures for See's for the entire 11-year period of our ownership are set forth below:

Year ended about	Revenues	Profits after taxes*	Number of pounds of candy sold	Number of stores open at year end
December 31, 1982	$123,662,000	$12,661,000	24,216,000	202
December 31, 1981	112,578,000	11,130,000	24,052,000	199
December 31, 1980	97,715,000	7,747,000	24,065,000	191
December 31, 1979	87,314,000	6,473,000	23,985,000	188
December 31, 1978	73,653,000	6,289,000	22,407,000	182
December 31, 1977	62,886,000	6,262,000	20,921,000	179
December 31, 1976	56,333,000	5,618,000	20,553,000	173
December 31, 1975	50,492,000	5,308,000	19,134,000	172
December 31, 1974	41,248,000	3,229,000	17,883,000	170
December 31, 1973	35,050,000	2,069,000	17,813,000	169
December 31, 1972	31,337,000	2,332,000	16,954,000	167

* These earnings figures are a little higher than Blue Chip Stamps' share of See's earnings shown in the table on page 1 because Blue Chip's share reflects (i) amortization of intangibles arising from purchase of See's stock at a large premium over book value and (ii) state income taxes on See's dividends received by Blue Chip.

See's aggregate sales in pounds held up well last year, being essentially unchanged from the previous year even though prices were increased at a rate which turned out to be somewhat higher than the inflation rate. Shop sales decreased 1.0% despite the impact of

additional stores. Shops operating throughout both years registered a greater decrease in poundage of 2.3%. Ingredient costs per pound decreased slightly, the first such decrease in years, but other costs increased sharply. The failure to control these other costs so as to more closely match inflation prevented an earnings increase which, considering the favorable trend in ingredient costs, otherwise would have been greater than the 13.8% reported.

See's is by far the finest business we have ever purchased, exceeding our expectations, which were quite conservative. Our record as foretellers of the future is often poor, even with respect to businesses we have owned for many years, and we so greatly underestimated See's future that we were lucky to acquire it at all.

However, we have at least had the good sense all these last eleven years to want See's chief executive, Chuck Huggins, who has spent his working life in its business, to run the company in his and its traditional way. Chuck Huggins is a splendid man and a splendid manager. It is no minor privilege to be associated with him and the kind of quality enterprise he and his predecessors and co-workers have created.

Boxed chocolate consumption per capita in the United States continues to be essentially static, and the candy-store business remains subject to extraordinary cost pressures, offset to some extent in 1981 and 1982 by a subnormal increase followed by a decrease in ingredient costs. When See's increases prices each year to reflect cost pressures, it never knows whether consumer resistance will cause net profits to fall instead of rise. Thus far, consumers have been willing to keep buying in the amounts required to keep See's profits rising irregularly at an average rate which, aided by large recent gains, has turned out to be quite satisfactory. This state of affairs logically cannot continue forever if, on average, See's costs keep increasing faster than the general rate of inflation. Moreover, in some future years commodity and ingredient prices will rise sharply and unexpectedly, causing unanticipated decreases in profits.

Perhaps because price increases deter purchases for personal consumption more than purchases for gifts, See's seasonal sales peak becomes more extreme each year, causing many operating problems and a growing concentration of See's net income in the single month of December.

See's success to date becomes even more remarkable when its industry background is examined in more detail. So far as we know the candy-store business continues to be terrible to mediocre for all other companies, which tend to suffer from a combination of (1) low sales per square foot of retailing space plus (2) the great seasonality of the business which requires staffing and maintenance of stores at minimum levels grossly unjustified by sales during about 90% of each year.

We believe that See's exceptional profits occur, despite all the problems, mainly because both new and old customers prefer the taste and texture of See's candy, as well as the extremely high level of retailing service which characterizes its distribution. This customer enthusiasm is caused by See's virtually fanatic insistence on expensive natural candy ingredients plus expensive manufacturing and distributing methods that ensure rigorous quality control and cheerful retail service. These qualities are rewarded by extraordinary sales per square foot in the stores, frequently two to three times those of competitors, and by a strong preference by gift recipients for See's chocolates, even when measured against much more expensive brands.

At the end of 1982, the portion of Blue Chip's consolidated net worth represented by its interest in See's amounted to $50.5 million and included liquid assets more than adequate to finance See's substantial annual build-up of pre-Christmas inventories. Obviously, based on See's 1982 earnings of $12.7 million, this investment in See's is worth considerably more than its carrying value in Blue Chip's consolidated balance sheet.

Last year we stated that See's would try again to increase earnings in 1982 and that a modest increase was quite conceivable. This same statement now seems appropriate with respect to 1983.

MUTUAL SAVINGS AND LOAN ASSOCIATION

Our equity in Mutual Savings' operating income declined slightly in 1982 to $3,296,000 from $3,393,000 in the previous year.

The 1982 operating income equity of $3,296,000 is before deduction of Blue Chip's $1,943,000 share of an after-tax loss from Mutual Savings' sale last year of mortgage-backed securities. This special loss contribution of $1,943,000 has been included, instead, in computing "Net Gains on Sales of Securities, Mortgages and Important Fixed Assets," the final category in our earnings breakdown for purposes of this letter.

Earning any operating income at all was an achievement because in 1982 almost all other savings and loan associations suffered operating losses. The generally poor results are caused by a borrowed-short, lent-long position, combined with high current interest rates associated with past and anticipated inflation and removal of much former regulation limiting rate competition for savings accounts. Associations have been forced to pay interest rates to hold savings accounts which are higher than can be covered by locked-in yields from long-term, fixed-rate mortgages acquired years ago in what now seems like a different world.

The sorry state of the savings and loan industry is one more example of the operation of Garrett Hardin's principle for soft sciences (like business, politics, economics and law) that bad ideas are born good. A well-intentioned idea of some kind works fine for a while, then stops working and goes into reverse, as did the basic savings and loan idea of borrowing short and lending long to an extreme degree while depending on governmental regulation to force savers to take an inadequate return. If, as seems likely, Hardin's principle is part of an inevitable human legacy, tragedy can be averted, partially, only by reversing course when the danger flags start flying as the cherished ideas of the past are faithfully followed. Unfortunately, another perverse phenomenon interferes here — the tendency of the mind to reject the message from a danger signal which is inconsistent with a cherished idea.

At Mutual Savings we were too blind for too long, exactly as Hardin would have predicted, but like the rest of the savings and loan industry we started coping better with reality when it stopped waving the danger flags at us and started using them to poke us in the head and stomach.

The eventual result of our efforts to cope with reality, including a massive sale of branch offices, has been that Mutual Savings has continued to earn a modest amount of operating income despite having a substantial borrowed-short, lent-long position, including a fixed-rate mortgage portfolio bearing what is probably the very lowest average interest rate among all U.S. associations (7.4% per annum at the end of 1982). The 1982 operating income occurred, notwithstanding this handicap, because Mutual Savings has had:

(1) so far as we know, a higher ratio of shareholders' equity to total interest-bearing liabilities than any other mature U.S. association;

(2) a higher-than-normal proportion of assets in short-term, interest-bearing cash equivalents; and

(3) a far-higher-than-normal proportion of assets in intermediate-term, tax-exempt bonds and utility preferred stocks producing a tax-equivalent yield of about double that prevailing on the mortgage portfolio of the typical association.

Mutual Savings' balance sheet at the end of 1982 is set forth in summary form in Note 1 to our accompanying financial statements.

Mutual Savings' unusual asset-liability structure was caused in part by the sale in 1980 of all its branch offices, one incident of which was retention of only the lowest-yielding mortgages, albeit those with the shortest remaining terms. In selling all branch offices in 1980 as interest rates were rising, the institution shortened sail to allow for hurricane conditions, not because a hurricane was clearly foreseen, but because of the effect that being poked with danger flags had on our generally cautious nature. A hurricane came in 1981, the end of which is yet to be seen, although industry conditions are now considerably improved from their worst state, due to a substantial decline in interest rates incident to recession.

What Mutual Savings has left is a less-than-mediocre business in terms of the return it earns on the capital it employs. As it keeps its books it had $46.2 million in shareholders' equity at the end of 1981, on which its operating income was of less-than-highest quality and amounted to only $3.3 million in 1982, or at the inadequate rate of 7.1% per annum. (The operating income was of less-than-highest quality because it came largely from tax savings through inclusion in its parent's consolidated income tax return, and such income, while real, has less cushion in reserve against future adversity than the highest quality income on which full income taxes have been paid in cash and are recoverable from the IRS in the event of future losses.) However, as Blue Chip reports earnings from its equity in this less-than-mediocre business, the results are considerably better because Blue Chip's equity was originally purchased at a large discount from its book value on the books of Mutual Savings. At the end of 1981 Blue Chip's equity in Mutual Savings was carried in Blue Chip's consolidated balance sheet, net of minority interest, at $18.2 million, and this equity contributed $3.3 million to Blue Chip's consolidated operating earnings in 1982, or at the rate of 18.1% per annum, including $.6 million of amortization into income, at the rate of 1/40th per year, of the discount from book value at which the equity originally was purchased.

Some additional perspective on the current situation may be obtained by examining the following table:

Calendar year	Blue Chip's average equity in Mutual Savings as carried in Blue Chip's consolidated balance sheet	Blue Chip's share of the cash dividend paid by Mutual Savings during the year	Annual percentage return on Blue Chip's equity from the Mutual Savings dividend
1975	$11,975,000	$1,932,000	16.1%
1976	20,570,000	3,226,000	15.7
1977	23,928,000	3,845,000	16.1
1978	25,285,000	5,287,000	20.9
1979	25,630,000	6,728,000	26.3
1980	22,381,000	9,852,000	44.0
1981	18,778,000	1,922,000	10.2
1982	20,965,000	801,000	3.8

This table pretty well reflects the essence of real, and on balance quite favorable, economic effects on Blue Chip shareholders caused by Blue Chip's acquisition of a large interest in Mutual Savings.

In last year's letter we reported that we expected Mutual Savings to pay no dividend at all in 1982. Instead, despite the loss from an unusual sale of mortgage-backed securities, a modest 1982 dividend was paid, as reflected in the table above, and we now guardedly forecast a larger dividend from Mutual Savings in 1983. Any increase would be welcome, because the present dividend return on Blue Chip's carrying value of its investment is inadequate, and not in any small degree.

Operating a savings and loan association under the more competitive conditions which will almost surely prevail in the future as a consequence of deregulation of rates of interest paid to savers is going to present a challenge which, so far, we haven't fully figured out how to meet. We are sobered by the examples of deregulation effects presented by trucking companies and airlines, and by the possibility of shocks to the whole bank/savings and loan system which now appear more conceivable than at any other time after World War II. National legislators in both political parties, pressured by our financial institutions, have recently augmented the hermaphroditic part of the bank/savings and loan system, where deposits are insured (in effect) by the U. S. Treasury while interest rates paid to depositors on those deposits can be (roughly) whatever an insured institution decides to pay. We hope we are wrong in foreseeing, from the recent changes in the system, increased encouragement of what in the long run will be unsound practice by institutions needing encouragement in precisely the opposite direction.

We do have one central determination: to preserve a lot of options by retaining financial strength and by remaining very flexible with respect to expansion (including acquisition), contraction and revisions of services designed to create more differentiation in the market place from standard financial services provided by others.

We do not have any intention to sell Mutual Savings. We hope that it will ultimately find a way to earn higher profits, sufficient at least to permit payment of dividends causing realization of a more satisfactory rate of return on the carrying value of Blue Chip's equity.

No savings and loan executive has had an easy time in the last few years. Louis Vincenti, chief executive of both Mutual Savings and Wesco, is no exception. In our view the record he has created is better than those of his peers, reflecting both unusual talent and a very high sense of stewardship for savers and shareholders.

Reproduced from 1982 Annual Report of Blue Chip Stamps.

PRECISION STEEL WAREHOUSE, INC.

Our 80%-owned Precision Steel subsidiary, located in the outskirts of Chicago at Franklin Park, Illinois, was acquired for approximately $15 million on February 28, 1979. Our 80% share of the price was thus about $12 million. It owns a long-established steel service center business and a subsidiary engaged in the manufacture and distribution of tool room supplies and other products sold under its own brand names. Precision Steel's operating businesses contributed $276,000 to our consolidated net income in 1982 compared with $1,560,000 in 1981. The decrease in earnings was caused by a continuation of (1) severe recessionary conditions in the steel industry, and (2) effects of a business mistake, now corrected at substantial cost, namely entry into a small measuring-tool distribution business, closed down in 1982.

Even under recessionary conditions operations remain profitable, and we anticipate at least some improvement in earnings for 1983.

The minimum shareholders' equity, at Blue Chip's carrying value per unit of equity, required to own and operate 100% of Precision Steel's business at its 1982 level is about $13 million on which the business earned $.3 million in 1982 or at a very inadequate rate of 2.3% per annum.

We knew when we purchased Precision Steel that earning a return, satisfactory under inflationary conditions, on the unleveraged equity capital required to operate its business would be difficult, and we supplied some leverage by borrowing the purchase price, refinancing at a fixed rate as soon as practicable. We ordinarily have reservations concerning financial leverage but are willing, as in this case, to borrow money to purchase as part of our mix of businesses a clean and moderately profitable company like Precision Steel where inventories carried on the LIFO basis represent a substantial part of total assets and where reported earnings are expected usually to turn up in cash, absent optional expansion.

After acquisition, as above reported, Precision Steel's earnings have been a disappointment, but its facilities and balance sheet remain in first-class shape.

Both Mutual Savings and Precision Steel are owned by Blue Chip Stamps through 80% control of Wesco Financial Corporation, a public company with shares traded on the American Stock Exchange. For more complete information, we encourage Blue Chip shareholders to obtain a copy of Wesco's 1982 annual report. Simply make your request to:

Wesco Financial Corporation
315 East Colorado Boulevard
Pasadena, California 91109
Attention: Mrs. Jeanne Leach, Treasurer

BUFFALO EVENING NEWS, INC.

The operating loss, before taxes, of our 100%-owned newspaper subsidiary, Buffalo Evening News, Inc., in 1982 was higher than that of 1981, increasing marginally to $1,270,000 from $1,091,000 in the previous year. Thus the surface indication from our newspaper figures for the full year 1982 would appear to be that we were correct last year when we stated with respect to the News: "We confidently predict a lack of improvement [in the News' 1982 operating figures]. We anticipate terrible market conditions for the News in 1982."

However, the underlying reality as we enter 1983 is quite different from the poor situation forecast in last year's letter to stockholders. What we failed to foresee last year was the business failure of the Courier Express, the News' most important competitor in Buffalo, which ceased publishing its newspaper on September 19, 1982, leaving the News as the only area-wide metropolitan daily newspaper in Greater Buffalo, New York.

Before the failure of the Courier Express the News and its employees were locked into an intense survival struggle in a recession-plagued market (albeit a fine city). The outcome of this struggle was always uncertain. Now the economic prospects for both the News and its employees are improved from the extremely hazardous state which formerly existed. Indeed, profits were earned in November and December of 1982 adequate to offset a major portion of extraordinary costs and losses incident to circulation-building, including start-up of the News' first weekday morning edition, after the Courier Express stopped publishing in September. We now expect the News to be profitable for the full year 1983. Our eventual target is a 10% margin on sales after taxes, and we hope to be well over halfway to this target in 1983. Our target return on sales is somewhere close to the norm for newspaper operations like the News.

We will not here repeat in detail our long account of the competition and litigation in Buffalo between the News and the Courier Express. That chapter has ended. Shareholders who wish to refresh their memories should read the section about the News in last year's letter. Highlights of an up-dated history from our acquisition of the News in 1977 through year-end 1982 are as follows:

(1) We purchased the News for about $34 million in April, 1977.

(2) The News lost about $12 million, before taxes, after our acquisition and through December 31, 1982.

(3) The after-tax effect of these losses reduced the carrying value of our News subsidiary in our consolidated balance sheet to about $28 million at the end of 1982. (In addition, of course, we have realized no return at all for a great many years from employment of the $34 million originally expended in buying the newspaper, and we would have realized a substantial and compounded return if we had invested the money elsewhere.)

(4) However, the newspaper which we owned at the end of 1982 is a much better business operation than the newspaper we purchased in April of 1977. The following comparisons indicate the rough dimensions of change at the News:

	In April, 1977	At 12/31/82
Weekday circulation	279,000	323,000
Saturday circulation	300,000	271,000
Sunday circulation	−0−	354,000
Estimated revenues for next 12 months	$43,000,000*	$85,000,000 plus

* Represents approximate actual revenues for twelve months beginning April 1977.

As this is written, the News ranks 21st among the nation's daily newspapers in weekday circulation, which was about 321,000 in February, 1983. At the same time Sunday circulation was about 367,000. Notwithstanding economic decline in Buffalo the present Sunday circulation of the News is 95,000 higher than the 272,000 Sunday circulation of the Courier Express in 1977 when it alone published a Sunday edition!

Plainly, considering the ambitions of other publishers to add to their newspaper holdings, the News could now be sold for considerably more than the amount at which it is carried in Blue Chip's consolidated balance sheet. However, we have no interest in selling. We are proud of the News and of our association with its people — including Henry Urban, Stan Lipsey, Murray Light, Clyde Pinson, Dave Perona, Dick Feather and many more — who have led the News to its present position. We are proud, too, that we have nourished as well as we have the journalistic tradition we inherited from the News' legendary Editor, Alfred H. Kirchhofer, predecessor to Murray Light. We hope to be better known as the years pass as good stewards of good traditions, as we believe we have been at both the News and See's.

Although the News is now a much stronger economic operation than it was last year, it nonetheless occupies no bower of roses, for the following reasons, among others:

(1) Metropolitan newspapers as a group have lost advertising market share to electronic media in recent years. Newspaper publishing is inherently a very intense user of resources, energy and human time, compared to many other media, the influence of which is growing, assisted by rapidly improving technology. Newspaper costs have escalated more rapidly in some recent years than utility to advertisers, particularly at some large, old newspapers. One cause is newspaper inability, because of provisions in labor contracts, to realize anything like the full reduction in various costs possible with modern automation, while competitors not so restricted gain full benefits from technological change.

(2) Competition from free publications and suburban newspapers has increased in vigor.

(3) Retailing has increasingly been concentrated in chain-store operations which have learned how to deliver advertising circulars without using newspapers and often do so when dissatisfied with newspaper run-of-press or pre-print advertising rates.

(4) Buffalo has suffered and continues to suffer from far more than its share of the national recession. Unemployment has been as high as 15.3%, and many large and important retailers have gone out of business, shrinking the total amount of advertising available to newspapers by millions of lines per year. It was this extreme Buffalo-area business decline, plus general conditions making it difficult or impossible for two competing newspapers to survive, even in cities with above-average prosperity, which combined to cause Buffalo to become yet another American city with only one area-wide metropolitan newspaper. As things worked out, the News may well have realized some advantage as well as disadvantage as recent, above-average business misery in Greater Buffalo contributed to the disappearance of a major competitor. But any continuation of local business decline from this point will be a pure curse for the News. All managers know that it is easier to keep both owners and employees happy in a business in an expanding market, instead of a declining one. Shrinking-pie division is usually more troublesome and controversial than expanding-pie division.

These are not small problems, and in a few other cities (some more prosperous than Buffalo) without economic competition between two area-wide metropolitan newspapers, we surmise that little or no profit is now being earned by the metropolitan newspaper operation.

Finally, our shareholders should recognize that if our 1977 purchase of the News has now worked out acceptably from their viewpoint, which contrary to our prediction last year may now be true even after taking into account time delays, the conclusion does not follow that we made a sound managerial decision buying the News when we did for the price we paid. In retrospect, we were strongly influenced because we liked the newspaper, its people and the city, and we may simply have gambled shareholders' money against the odds and won. Our stewardship may have been, at best, dubious in this instance. We know that the financial outcome we now report could with slightly different breaks just as well have been either (1) a large loss on closure of the News or (2) the expectation of much more money-losing in continued operation, as part of the only defensive strategy with reasonable prospects.

PROMOTIONAL SERVICES BUSINESS AND MISCELLANEOUS SOURCES OF OPERATING INCOME

The final components of our consolidated net operating income last year were provided by (1) operating earnings from our promotional services (mainly trading stamp and motivation) business, after deduction of interest and other general parent company expense, plus (2) our share of operating earnings, after deduction of interest and other Wesco general corporate expense, from securities and real estate held by Wesco outside the savings and loan and steel service activities of its subsidiaries.

The promotional services business operated at a slightly increased profit, after parent company interest and other general expense and income taxes, last year, up to $4,212,000 from $3,659,000 after (properly) giving it credit for the entire income (dividends and interest, plus income tax benefits caused by dividends) from investment of the funds available through (1) "float" caused by trading stamps issued but not yet redeemed plus (2) a reasonable amount of shareholders' equity capital. Our shareholders should not be encouraged by the increase in after-tax profit, which was attributable in part to the fact that favorable revisions in our estimates of our liability to redeem outstanding trading stamps were made in 1982 but not in 1981 and in part to increased shareholders' equity capital. The revisions in redemption liability, which by their nature will not frequently recur, increased 1982 after-tax profit by $339,000.

Moreover, as we forecast in last year's letter, trading stamp service revenues declined drastically in 1982 to $9,203,000 from $15,619,000 in 1981. The Stater Bros. supermarket chain, which accounted for 51% of our trading stamp revenues in 1981 discontinued giving trading stamps on April 1, 1982, and we have not replaced the lost revenue. The main good news coming out of our trading stamp business last year was an increase in sales to service stations, attributable to very intense competition caused by the current gasoline glut, plus some heartening examples of customer success after adoption of our programs.

Our continued substantial profits in the trading stamp business, in the face of huge decreases in sales, are made possible only by the slow departure of "float" from trading stamps sold in earlier and better years. This "float" — resulting from past issuance of trading stamps when volume was many times greater than the current level — is very large in relation to current issuances. (Trading stamp revenues peaked at $124,180,000 in fiscal 1970, and our 1982 revenues of $9,203,000 therefore represented a decline of 93% from peak volume.) Eventually, unless stamp issuances improve, earnings from investing "float" will decline enormously. And, since the trading stamp business already operates at a loss before taking investment revenues into account, such future declines in "float" will aggravate what is already a poor situation. This happens because any significant decline in non-investment revenues is inevitably more rapid than the related decline in costs. Such is the normal result for any operator of a chain of retail stores (like our trading stamp redemption stores) whose "same store" sales decline in dollars from year to year.

Under such conditions it has been helpful to us that our decline in "float" in recent years has proceeded at so extremely slow a rate, leaving our reserved liability for trading stamp redemption at $60,240,000 at yearend 1982, down only 6.3% from yearend 1981.

As discussed extensively in previous annual reports (particularly for fiscal 1976), which we urge shareholders to review, accounting for trading stamp redemption liability (which involves estimating the number of stamps that will ultimately be redeemed and the cost per stamp) is a difficult process under any circumstances, but particularly so in an inflationary economy and when stamp issuances decline by a large percentage. We periodically revise our estimated future redemption liability as conditions warrant. In 1982 we made revisions increasing operating income as above described, as explained in detail in Note 2 to our accompanying financial statements. Recent changes, including that in 1982, both decreased our estimates of stamps ultimately to be redeemed and increased our estimates of total redemption costs per stamp. Merchandise cost per stamp redeemed has remained relatively constant as volume has declined, and we hope this state of affairs will continue. Non-merchandise or redemption service cost per stamp redeemed is another story. Such cost per stamp is now virtually certain to go up sharply from last year's level as stamps redeemed in the future share store and warehouse operating expense which cannot be reduced at the same rate as redemptions. The 1982 changes take all the foregoing into account.

A higher proportion of non-merchandise costs in our redemption liability has an unfortunate income-tax effect, diminishing true "float" per dollar of book liability. The cash available to us for use from aggregate redemption liability as reported in our books is always considerably lower than the amount of liability shown. One cause is U. S. Treasury regulations (which we have conformed to despite doubting their legality) which do not allow us to deduct for income-tax purposes future redemption service cost (for instance, store operating expense) as distinguished from future merchandise cost. Both types of cost are unavoidable and require accrual of real liabilities in our audited financial statements. The cash-use consequences of the divergence (all of which is not caused by the U. S. Treasury regulation cited above) of IRS-specified income-tax accounting and our audited accounting are substantial. For instance, out of our total trading stamp redemption liability as we report it of $60,240,000 at yearend 1982, we must leave $17,175,000 in a non-interest-bearing deposit with the U. S. Treasury, designated "prepaid income taxes" in our balance sheet.

We remain convinced that trading stamps are an effective point-of-purchase sales promotion device for supermarkets, service stations, bowling alleys and the like. We intend to remain in the trading stamp business.

In our related motivation business revenues decreased slightly in 1982 to $1,351,000 from $1,446,000 in 1981. Revenues are expected to increase in 1983.

One final item augments our consolidated net operating income. Our share of operating earnings, after deduction of interest and other Wesco general corporate expense, from securities and real estate held by Wesco outside the savings and loan and steel service activities of its subsidiaries, amounted to $2,838,000 in 1982 compared with $2,167,000 in the previous year.

NET GAINS ON SALES OF CORPORATE SECURITIES, MORTGAGES AND IMPORTANT FIXED ASSETS

In our total assets, located among our five operating businesses, we hold considerably more corporate securities than might be expected in a consolidated enterprise of our size at the close of 1982 as we report consolidated revenues of $252 million and consolidated net worth of $218 million (see Note 3 to our accompanying consolidated financial statements).

Most of these holdings of corporate securities are held because of the very nature of the particular business in which they are owned. For instance, the trading stamp business owns liquid assets to provide for ultimate redemption of stamps, and the savings and loan business holds liquid assets to provide for repayment of savings account holders. The remaining security holdings exist temporarily, primarily in Wesco Financial Corporation, pending their disposition to provide funds for use in buying additional businesses.

Only Mutual Savings, which until January 1, 1983 was barred by law from owning most common stocks, has significant holdings of preferred stocks. Most holdings, therefore, are of common stocks. Our reported operating earnings include only the dividends from our stockholdings, after taxes. And, because the corporations whose common stock we own also have and reinvest earnings not paid out as dividends, a process which ultimately raises market value of the stock we own, we also realize irregularly net capital gains from sales of portions of our holdings.

In addition, our various businesses occasionally sell important buildings, machinery or other fixed assets, as such businesses adjust to changing conditions. No significant sale of fixed assets occurred in 1982.

Our aggregate share of all types of special net gains combined, after income taxes, was $23,101,000 in 1982 compared with $6,731,000 in 1981. All the 1981 net gain came from the sale of securities. The 1982 share of net gain consisted of $25,044,000 from sale of securities, offset by $1,943,000 in net loss from Mutual Savings' sale of mortgage-backed securities. The 1982 share of net gain from sale of securities included $23,901,000 from disposition of our entire holdings in Pinkerton's, Inc., discussed in the next section of this letter.

PINKERTON'S, INC.

Pursuant to a contract made in 1982 we received cash from American Brands early in 1983 for our entire Pinkerton's holding. The after-tax gain of $23,901,000 is included in our 1982 financial figures.

The holding sold consisted of non-voting stock representing 37% of the equity in Pinkerton's, long the leading national security and investigation service company.

Our ownership of this non-voting interest demonstrates that, when all factors are considered, we often would rather buy stock we can't or won't vote than absolute control. We think the rationality of use-of-capital decisions is improved when the repertoire of a corporate manager includes purchases of business interests which do not augment the number of people to whom the manager can give orders. However, we have generally observed a low interest among corporate managers in passive investments, even when available at much better price/earnings and price/book value ratios than controlling positions. The strong preference for controlling positions is ordinarily justified by (1) expected improvements from a change in control based on a high appraisal of the business skills of the managers of the corporate investor compared to the managers of the corporate investee and (2) a low appraisal of the likelihood that the managers of the corporate investee, if free to act independently, will make decisions which best serve the interests of ultimate shareholders. Our view is different, and, although we have always expected to concentrate our activities primarily in operating businesses, we also have an uncommon interest in passive positions for the following reasons:

(1) We know that our business skills are frequently inferior by a wide margin to those of others, as we can prove from comparative figures and our audited record reflecting gross errors;

(2) We believe that many corporate managers can be trusted to serve the shareholders' interests even when the shareholders have no practical power to control or replace management;

(3) We think the advantage of buying at a non-premium price, because control is absent, often counterbalances the disadvantage, if any, from lack of control;

(4) Our consolidated enterprise includes operating businesses required by their nature to own significant passive investments.

We hope to become better known for an uncommon willingness to own "non-voting-partnership" interests in businesses and to attract other offerings like that which produced our Pinkerton's holding. And we are sure, based on six years' observation from our non-voting position, that Pinkerton's wouldn't have been managed or merged one whit better or one whit more in its shareholders' interests if we had purchased voting control.

Only the dividends we have received from Pinkerton's are included in our reported operating income. These dividends were increased regularly in recent years, creating part of the income reported above under the heading: "Promotional Services Business and Miscellaneous Sources of Operating Income." The part created by Pinkerton's dividends was $2,011,000 in 1982 and $1,730,000 in 1981.

There will, of course, be no future operating income from Pinkerton's dividends, only income from reinvesting the $47,265,000 after-tax proceeds of disposition of the Pinkerton's holding. Our average compounded, after-tax return from owning non-voting Pinkerton's stock was 15% per year, merging the effects of both dividends over the years and the final large capital gain included in the portion of our 1982 income listed above under the heading "Net Gains on Sales of Corporate Securities, Mortgages and Important Fixed Assets."

Reproduced from 1982 Annual Report of Blue Chip Stamps.

CONSOLIDATED BALANCE SHEET AND OTHER DATA

Our consolidated balance sheet retains a strength befitting a company whose consolidated net worth supports large outstanding promises to others. As explained in Note 3 to the accompanying financial statements, the aggregate market value of our marketable securities was higher than their aggregate cost at December 25, 1982. In addition, an office building and related real estate owned by Wesco Financial Corporation has a market value substantially in excess of carrying value. We remain in a prudent position when total debt is compared to total net worth and total liquid assets.

Retaining the impeccable bank credit facilitated by a prudent balance sheet position has always been very important to us. When combined with our practice of doing a certain amount of long-term borrowing in advance of specific need, impeccable credit has given us maximum financial flexibility to face both hazards and opportunities.

Sections entitled "Principal Business Activities," "Selected Financial Data" and "Management's Discussion and Analysis" are presented immediately following this letter. We invite your careful attention to these items and to our audited financial statements.

A LOOK BACK AND A LOOK AHEAD

We began the 1970s with a single business, trading stamps, which was destined to decline to a small fraction of its former size, and a portfolio of securities, offsetting stamp redemption liability, which had been selected by previous owners and would have led to a disastrous result if held through to the present time. (The portfolio, for instance, contained a substantial amount of very-long-term, low-coupon municipal bonds of issuers with declining credit ratings.)

We began the 1980s with five constituent businesses instead of one. In order of acquisition they are: (1) trading stamps and other promotional services, (2) See's Candy Shops, Incorporated, (3) Mutual Savings, (4) Buffalo Evening News, and (5) Precision Steel.

Our five constituent businesses have more in common than might be noted by a casual observer:

(1) They are all high-grade operations suffused to a considerable extent with the business ideas of Benjamin Franklin, manned by high-grade people operating within a long tradition emphasizing reliable and effective service, and

(2) When functioning properly each business will usually generate substantial amounts of cash not claimed by compulsory reinvestment in the same business and therefore available for purchases of new businesses or debt repayment.

The second of these two common characteristics gets more important every year as inflation continues. Many businesses, once good investments when inflation was low, are now, under inflationary conditions, unable to produce much, if any, cash even when physical volume is constant. Any such business, always cash-starved at constant physical volume, even while reporting apparently satisfactory profits, is a very dubious candidate, absent some special factor, for acquisition by a rational acquirer.

Our balance sheet net worth at March 3, 1973 was about $53 million. By the end of 1982 our balance sheet net worth had increased to approximately $218 million, up 311% in ten years, after payment of regular dividends. At March 3, 1973 our equity in aggregate

securities was worth about $4 million more than balance sheet cost. At the end of 1982 this equity was worth about $27 million more than balance sheet cost. Our average annual total percentage return earned on shareholders' investment over the ten years ending December 25, 1982 was approximately 16.7% per annum, without taking into account (1) the increase from $4 million to $27 million in unrealized appreciation in our equity in marketable securities or (2) unrealized net appreciation in such subsidiaries as See's and the Buffalo Evening News. The percentage return earned was acceptable in a moderate-inflation environment, considering the headwinds in our initial trading stamp business.

In 1982, the year just ended, our total percentage return on the beginning investment of our shareholders was approximately 27%. This percentage return fluctuates from year to year depending upon various factors including changes in amounts of capital gains realized. The percentage return figure for any one year is not very significant, although the average figure over a period of years, and the trend in such average figure, are of vital importance.

In the future we hope to earn a higher average (though sharply fluctuating) annual total percentage return on shareholders' investment — at least for a while until we are dragged down by some law of regression toward mean results, an outcome sure to occur eventually at any corporation which retains a high proportion of its earnings. Some short-term prospects are favorable, for instance, the prospect that the Buffalo Evening News will have earnings in 1983, compared to a loss in 1982. Furthermore, we expect from time to time to acquire additional businesses which eventually will produce higher returns than the assets disposed of to fund their purchase.

However, even if above-average returns on shareholders' equity are earned for a long time in the future — far from a sure thing — the inflation problem for our shareholders will not automatically be solved. As we point out year after year, "A 16% return on equity obviously won't do much in real terms for shareholders if the inflation rate is 16%, or even 11% when we also allow for income taxes imposed on owners who must report taxable 'profits' while only maintaining their position on the purchasing-power treadmill."

Inflation is a very effective form of indirect taxation on capital represented by holdings of common stock. We know of no adequate countermeasure, generally available to corporate managers who wish to protect shareholders, to this form of indirect taxation. But, even so, we think a habit of always thinking about and trying to serve shareholders' interests in real terms, instead of rationalizing growth of managed assets regardless of real effects on shareholders, is quite useful and may fairly be expected of corporate managements. We make a very conscious effort, perhaps with occasional inadvertent lapses, to have and reinforce this habit.

For one example, low stock prices, caused by inflation, together with our preoccupation with real shareholder interests, have intensified our resistance to most proposals that we issue new common stock. We haven't issued a new share, for any reason, for a long time. With rare exceptions American corporations now cannot get as much intrinsic value as they give when new common stock is issued. Our corporation is no exception. And, quite clearly, a corporation can't further its own shareholders' long-term interests by diluting, through new stock issuances, the intrinsic value underlying each outstanding share. Our unwillingness to accept any such dilution explains our long-unchanged common stock capitalization.

Even in the presence of the moderation in inflation caused by the current severe recession, we think the likelihood of future inflation remains high in the United States, as well as in other modern democracies. In a sense the current recession has compounded the inflation problem by demonstrating that a conscientious corporate manager must take precautions not only against inflation but also against severe slump — no small order, considering the inherent contradictions involved.

Current conditions have only intensified our long-standing belief that a (1) heavy managerial emphasis on the cash-generating characteristics of businesses, (2) managerial reluctance to issue new stock and (3) strong balance sheet position are all likely to enjoy increased recognition in future years as qualities to be emphasized by selectors of common stocks for investment.

This may well be the last annual report our shareholders will ever receive from Blue Chip Stamps as a separate corporation, because work is in progress on a proposal that our corporation be merged with Berkshire Hathaway Inc., long a 59.6%-owner of Blue Chip Stamps. If such a merger occurs, our shareholders will become holders of common shares of Berkshire Hathaway Inc. We will not here further discuss merger possibilities, because such discussion will be contained in a formal merger proposal and proxy statement, which Blue Chip shareholders will receive in due course if such a proposal is approved by the board of directors of each corporation.

Cordially yours,

Charles T. Munger
Chairman of the Board

Donald A. Koeppel
President

February 17, 1983

Berkshire Hathaway Inc.

SHAREHOLDER DESIGNATED CONTRIBUTIONS

On October 14, 1981 a letter was sent to shareholders giving the reasons for initiation of a program of shareholder-designated contributions. Portions of that letter follow:

"On September 30, 1981 Berkshire received a tax ruling from the U.S. Treasury Department that, in most years, should produce a significant benefit for charities of your choice.

"Each Berkshire shareholder — on a basis proportional to the number of shares of Berkshire that he owns — will be able to designate recipients of charitable contributions by our company. You'll name the charity; Berkshire will write the check. The ruling states that there will be no personal tax consequences to our shareholders from making such designations.

"Thus, our approximately 1500 owners now can exercise a perquisite that, although routinely exercised by the owners in closely-held businesses, is almost exclusively exercised by the managers in more widely-held businesses.

"In a widely-held corporation the executives ordinarily arrange all charitable donations, with no input at all from shareholders, in two main categories:

(1) Donations considered to benefit the corporation directly in an amount roughly commensurate with the cost of the donation; and
(2) Donations considered to benefit the corporation indirectly through hard-to-measure, long-delayed feedback effects of various kinds.

"I and other Berkshire executives have arranged in the past, as we will arrange in the future, all charitable donations in the first category. However, the aggregate level of giving in such category has been quite low, and very likely will remain quite low, because not many gifts can be shown to produce roughly commensurate direct benefits to Berkshire.

"In the second category, Berkshire's charitable gifts have been virtually nil, because I am not comfortable with ordinary corporate practice and had no better practice to substitute. What bothers me about ordinary corporate practice is the way gifts tend to be made based more on who does the asking and how corporate peers are responding than on an objective evaluation of the donee's activities. Conventionality often overpowers rationality.

"A common result is the use of the stockholder's money to implement the charitable inclinations of the corporate manager, who usually is heavily influenced by specific social pressures on him. Frequently there is an added incongruity; many corporate managers deplore governmental allocation of the taxpayer's dollar but embrace enthusiastically their own allocation of the shareholder's dollar.

"For Berkshire, a different model seems appropriate. Just as I wouldn't want you to implement your personal judgments by writing checks on my bank account for charities of your choice, I feel it inappropriate to write checks on your corporate "bank account" for charities of my choice. Your charitable preferences are as good as mine and, for both you and me, funds available to foster charitable interests in a tax-deductible manner reside largely at the corporate level rather than in our own hands.

"Under such circumstances, I believe Berkshire should imitate more closely-held companies, not larger public companies. If you and I each owned 50% of a corporation, our charitable decision making would be simple. Charities very directly related to the operations of the business would have first claim on our available charitable funds. Any balance available after the "operations-related" contributions would be divided among various charitable interests of the two of us, on a basis roughly proportional to our ownership interest. If the manager of our company had some suggestions, we would listen carefully — but the final decision would be ours. Despite our corporate form, in this aspect of the business we probably would behave as if we were a partnership.

"Wherever feasible, I believe in maintaining such a partnership frame of mind, even though we operate through a large, fairly widely-held corporation. Our Treasury ruling will allow such partnership-like behavior in this area . . .

"I am pleased that Berkshire donations can become owner-directed. It is ironic, but understandable, that a large and growing number of major corporations have charitable policies pursuant to which they will match gifts made by their employees (and — brace yourself for this one — many even match gifts made by directors) but none, to my knowledge, has a plan matching charitable gifts by owners. I say "understandable" because much of the stock of many large corporations is owned on a "revolving door" basis by institutions that have short-term investment horizons, and that lack a long-term owner's perspective . . .

"Our own shareholders are a different breed. As I mentioned in the 1979 annual report, at the end of each year more than 98% of our shares are owned by people who were shareholders at the beginning of the year. This long-term commitment to the business reflects an owner mentality which, as your manager, I intend to acknowledge in all feasible ways. The designated contributions policy is an example of that intent."

Contributions at the rate of $2 per share totaled $1,783,653 (to 675 charities) in 1981. In 1982, our projected tax position allowed $1 per share and contributions designated by shareholders totaled $890,948. In addition, Berkshire and subsidiaries continue to make certain contributions pursuant to local level decisions made by our operating managers.

There will be some years, perhaps two or three out of ten, when contributions by Berkshire will produce substandard tax deductions — or none at all. In those years we will not effect our shareholder-designated charitable program. In all other years we expect to inform you about October 10th of the amount per share that you may designate. A reply form will accompany the notice, and you will be given about three weeks to respond with your designation. *To qualify, your shares must be registered in your own name or the name of an owning trust, corporation, partnership or estate, if applicable, on our stockholder list of September 30th, or the Friday preceding if such date falls on a Saturday or Sunday.*

Berkshire Hathaway Inc.

SELECTED FINANCIAL DATA

(dollars in thousands — except per share amounts)

	Fiscal Year Ended Saturday Nearest December 31,				
	1982	*1981*	*1980*	*1979*	*1978*
Revenues of consolidated companies:					
Insurance premiums earned	$ 152,945	$ 159,013	$ 185,187	$181,949	$186,073
Interest and dividend income	52,416	49,189	38,966	30,440	24,293
Other revenues of consolidated companies	267,622	263,374	259,200	247,952	235,576
Equity in earnings excluding significant securities gains or losses of companies not consolidated:					
Wesco Financial Corporation	$ 6,408	$ 7,120	$ 8,804	$ 8,784	$ 7,417
Illinois National Bank*	—	—	4,731	4,960	4,242
Earnings:					
Earnings from continuing operations before realized investment gain	$ 31,497	$ 39,723	$ 38,484	$ 30,961	$ 25,742
Earnings from discontinued operations*	—	—	4,731	4,960	4,242
Earnings before realized investment gain	31,497	39,723	43,215	35,921	29,984
Realized investment gain, net — including equity in significant securities gains or losses of companies not consolidated	14,877	22,881	9,907	6,896	9,258
Net earnings	$ 46,374	$ 62,604	$ 53,122	$ 42,817	$ 39,242
Average shares of common stock outstanding — in thousands	986	986	1,027	1,027	1,029
Earnings per share:					
Earnings from continuing operations before realized investment gain	$ 31.93	$ 40.27	$ 37.47	$ 30.14	$ 25.02
Earnings before realized investment gain	31.93	40.27	42.07	34.97	29.15
Net earnings	47.01	63.47	51.72	41.68	38.15
Balance Sheet items (at end of Fiscal Year):					
Total assets	$1,485,624	$1,157,911	$1,010,581	$892,265	$757,612
Term debt and other borrowings	137,581	97,768	104,344	55,099	57,071
Minority shareholders' interest	88,234	70,416	59,851	52,097	48,520
Shareholders' equity — total	727,483	519,463	395,214	344,962	254,166
Shareholders' equity — per outstanding share	737.43	526.57	400.80	335.85	247.00

*The Company divested of its interest in the Illinois National Bank as of December 31, 1980. The Company's equity in earnings of that former subsidiary for years prior to 1981 is reflected above as earnings from discontinued operations.

Berkshire Hathaway Inc.

DIRECTORS AND EXECUTIVE OFFICERS

WARREN E. BUFFETT, *Director and Chairman of the Board*
Chief Executive Officer of the Company

KENNETH V. CHACE, *Director*
President of the Company and Chief Operating Officer of the Textile Operations of the Company

MALCOLM G. CHACE, JR., *Director*
Retired, Former Chairman of the Board of Directors of the Company

MICHAEL A. GOLDBERG, *Vice President*

J. VERNE MCKENZIE, *Director*
Vice President, Secretary and Treasurer of the Company

CHARLES T. MUNGER, *Director*
Vice Chairman of the Board of the Company
Chairman of the Board of Blue Chip Stamps

COMMON STOCK DATA

Shareholders

The Company had approximately 1,900 record holders of its common stock at February 28, 1983.

Market Prices

The common stock of Berkshire Hathaway Inc. is traded in the over the counter market and is regularly quoted in the NASDAQ System under the symbol BKHT. The high and low bid prices for stock in each quarter of 1982 and 1981 is set forth in the following table. The quotations represent prices between dealers and do not include retail markup, markdown or commission. They do not represent actual transactions.

1982	*High*	*Low*
First Quarter	560	465
Second Quarter	520	470
Third Quarter	555	420
Fourth Quarter	775	540

1981	*High*	*Low*
First Quarter	485	425
Second Quarter	525	480
Third Quarter	520	460
Fourth Quarter	590	460

Dividends

Berkshire has not declared a cash dividend since 1967. No change is contemplated in Berkshire's policy of investing its earnings in expansion of its businesses rather than paying cash dividends.

BERKSHIRE HATHAWAY INC.

Executive Offices – 1440 Kiewit Plazz, Omoha, Nebmska 68131